An Analysis of the Efficacy of Microfinance Institutions in Reaching the Hardcore Poor - The Case of Bangladesh

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In fulfilment of the Requirement

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The Degree of Doctor of Philosophy

By

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I hereby state that the thesis entitled **" An Analysis of the Efficacy of Microfinance Institutions in Reaching the Hardcore Poor - The Case of Bangladesh "** submitted for the Degree of Doctor of Philosophy (**Ph.D.**) is the outcome of my own research, except where otherwise acknowledged and that this thesis in whole or in part has not previously formed the basis for the award of any degree, diploma, fellowship or any other similar title.

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PREFACE

The study in hand attempts to determine the extent and intensity of poverty incidence in Bangladesh with a view to estimate Hardcore Poor (HCP) and to examine the efficacy of the Microfinance Institutions (MFIs) operations in reaching the later and suggest alternative policy options better suited to reach the HCP and thus reduce poverty at the grass root levels. Concomitantly, the possibility of poverty alleviation through microfinance has been explored utilising available data on outreach of MFIs at the grass-root level. Investigating the supply side alternative mechanisms of 'credit only" and 'credit plus" approaches and demand generative characteristics of hardcore poor, the issues related to their exclusion from participation in MFI operations have been examined. The study further makes an attempt to quantify and analyse the calculus of mismatch between the two ends.

In this study BBS data has been used based on a sample size of 16000 households. A two stage stratified sample design was followed in drawing the sample for Poverty Monitoring Survey 1999. The list of Enumeration Areas (EAs) of 1991 Population Census was used as the sample frame. The whole country was divided into two strata : Urban and Rural. Each of these strata was further divided into regions. A sub-sample of 20 households was drawn randomly from each selected EAs using random number table. Thus the urban stratum provides a sample of 6000 households (300 households * 20 regions). On the same lines the rural sample households numbered to 10,000 (500 * 20). The survey is first of its kind which provided useful empirical spade work for the present study and to develop a specific operational research model for the materialisation of this study.

Data from the survey conducted by Helen Keller International have also been used in this study. The survey follows a multistage sampling design where the 1st stage is marked by a random collection of given (4) thanas from each division. The 2nd stage consists in a random sample of 40 clusters (mauza) from each of the six administrative divisions. From each cluster a systematic sample of 30 households is drawn. Thus during each round a total of 7200 households are bagged to constitute the rural sample.

The efficacy of MFIs in reaching the hardcore poor is examined with four determinants : the graved situation of poverty in the targeted area keeping in view the

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infrastructure at the thana level ; demand perspective underpinned by the existence of demand generative characteristics; cost of providing microfinance services by the MFIs and risk attendant with delivery of poverty alleviation services. The liner programming models developed to estimate demand for microfinance in this study make use of data on region-wise number of poor households, average rate of return on income generating activities (ROI) and region-wise poverty lines or threshold income to cross poverty line. Multiple regressions models employ region-wise demand obtained from LP output as dependent variable and outreach parameters of selected MFIs as explanatory variables.

The correlation analysis in addition to outreach equations, econometric and regression analysis applied for major MFIs (ASA,BRAC & Proshika) helped in determining their comparative significance towards reaching the poor households. The poverty indicators used for outreach analysis of Safety Net Programmes (VGD, FFW, IGVGD) are : land ownership, literacy and per capita income. Mapping of Poverty vs MFIs carried out in this study also indicates regional mismatch among the associated variables. PopMap package (a geographic data base software (1999) developed by the UN Statistics office Geneva) has been used for developing a specialised application for this study.

The study reveals that nearly 100 billion Tk has been disbursed cumulatively by the MFIs which is less than half of the total demand of Tk 232 billion as estimated by LP model developed and applied in this study. The study concludes that despite enormous MFIs input with an outreach exceeding 16 million borrowers (number of poor households being 9.15 million in the country), the access to HCP falls far short of the target of reaching the bottom 20 to 25 percent outside the MFI orbit of operations. Among the leading MFIs and other 521 MFIs analysed in this study, BRAC seems to have done relatively better in reaching the poorest of the poor compared both GB and ASA. In contrast to the MFIs, the safety net programmes are seemed to have done even better. For example the outreach of VGD in both targeting and reaching the poorest of the poor is relatively better not only compared to MFIs but also to other similar programmes. Thus the study recommends that the exclusive collaborative programmes such as IGVGD should be expanded faster through providing them with adequate financing and support assistance required to ensure their smooth functioning.

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Abreviations and Acronyms

ADAB	Association for Development Agencies in Bangladesh
ADB:	Asian Development Bank
AIM:	Amania Ikhtiar Malaysia
AKRSP:	Agha Khan Rural Support Programme
APO :	Asian Productivity Organisation
ASA:	Association for Social Advancement
BARD:	Bangladesh Academy for Rural Development
BBS:	Bangladesh Bureau of Statistics
BIDS :	Bangladesh Institute of Development Studies
BIRD:	Bankers Institute of Rural Development, Lucknow, India
BRAC:	Bangladesh Rural Advancement Committee
BRDB:	Bangladesh Rural Development Board
BRI:	Bank Rakayat Indonesia
CARE:	Cooperative Assistance and Relief Everywhere
CHI	CASHPORE Housing Indix
CDF:	Credit Development Forum, Bangladesh
CGAP:	Consultative Group to Assist the Poorest
CHT	Chittagong Hill Tracts
CIRDAP:	Centre on Integrated Rural Development for Asia and the Pacific
CMCs	CIRDAP Member Countries
CPD:	Centre for Policy Dialogue
DFI	Developmental Financial Institutions
ERD	Economic Relations Division
ESCAP:	Economic and Social Commission for Asia and the Pacific
FAO:	Food and Agriculture Organisation
FFW:	Food For Work
FYP:	Five Year Plan
GB:	Grameen Bank (Bangladesh)
GNCC:	Government and NGOs Consultative Council
GO:	Government Organisation
GOB:	Government of Bangladesh
GOP:	Government of Pakistan
HARTI:	Hector Agricultural Rural Training Institute Colombo
HCP:	Hardcore Poor
HDI:	Human Development Index
HDR:	Human Development Report
HH	Household
HKI:	Helen Keller International
IFAD :	International Food for Agricultural Development
IGAs:	Income Generating activities
IGVGD:	Income Generation for Vulnerable Group Development Programme
ILO:	International Labour Organisation
IRDP:	Integrated Rural Development Programme
KSS:	Krishak Samabaya Samity
LDTA:	Local Development Training Academy, Nepal
LP:	Linear Programming
LSMS:	Living Standard Measurement Studies

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MELA:	Micro Enterprise Loan Assistance
MFIs:	Microfinance Institutions
MF-NGOs:	Microfinance Non Governmental Organisations
NAB:	NGO Affairs Bureau
NABARD:	National Bank for Agriculture and Rural Development
NCRD:	National Centre for Rural Development, Islamabad, Pakistan
NGCC	NGO Government Consultative Council
NGO:	Non Governmental Organisation
NIRD:	National Institute of Rural Development, Hyderabad, India
NRSP:	National Rural Support Programme, Islamabad, Pakistan
NTGs:	Non - Target Groups
OECD:	Organisation for Economic Cooperation Development
OPP:	Orangi Pilot Project, Karachi, Pakistan
PAP:	Poverty Alleviation Programmes
PCRW:	Production Centre for Rural Women
PHH:	Poor Household
PIDE:	Pakistan Institute of Development Economics, Islamabad, Pakistan
PKSF:	Palli Karma Sahayak Foundation
PL:	Poverty Line
POs:	Partner Organisations
PPAF:	Pakistan Poverty Alleviation Fund
RDA:	Rural Development Academy, Bogra
RDF:	Rural Development Foundation
RDR:	Rural Development Report (CIRDAP)
RMP:	Rural Maintenance Programme
ROI:	Return on Investment
SANFI:	South Asian Network of Microfinance Initiatives
SAP:	Social Action Programme (Pakistan)
SDA:	Social Dimension of Adjustment
SFDP:	Small Farmers Development Programme
SHG:	Self Help Group
SHPIs:	Self Help Promotional Institutions
SRSC:	Sarhad Rural Support Corporation, Peshawar, Pakistan
SWOT:	Strengths Weakness Opportunity and Threat
TCCA:	Thana Central Co-operative Association
TGs:	Target Groups
Tk:	Taka (Unit of Currency of Bangladesh ; **1 US $ = Tk 53.81** during September, 2000)
TMSS:	Thengamara Mohila Sabujj Sangha
UNDP:	United Nations Development Programme
UNHCSP:	United Nations Household Capability Survey Programme
VDC:	Village Development Committee
VGD:	Vulnerable Group Development
WB:	World Bank
WHO:	World Health Organisation
WIRC:	Women In Credit Information & Resource Centre, Islamabad

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Chapter I

INTRODUCTION

" Similar to knowledge, financial capital is power, and the poor are prepared to improve their standard of living through a line of credit for which a dedicated support organisation can be of initial assistance "

Human Development in South Asia 1999 p 136

Don't ask me what poverty is because you have met it outside my house. Look at the house and count the number of holes, look at the utensils and the clothes I am wearing. Look at every thing and write what you see. What you see is poverty.

The Voices of the poor - World Development Report 2000 p3

1.1 Setting the Problem

About forty thousands people die daily from hunger not because of supply of food problem but because of poverty, in the same world where as much capital as US $ 1.3 trillion is traded daily in the capital market. At the time of Social Summit (26-30 June, 2000), there were 1.3 billion people out of 6 billion worldwide living in absolute poverty (people basically living on less than US $ 370 a year) with 44 percent living in South Asia. About 550 million people were going to sleep hungry each night. According to the predictions of the United Nations the number of poor will rise even higher to 1.9 billion by 2015, provided no concerted efforts are undertaken globally to fight against poverty. In this scenario, poverty alleviation was the major theme of the new Millennium Summit held in September, 2000 in which more than 150 leaders of the world participated. A global plan of action for 21st century was one among the major outcomes of the Summit. [1]

Microfinanc, envisaging microcredit and broad range financial services[2] received global recognition and substantial support with encouraging response as a follow up of Microcredit Summit held in February 1997 in Washington D.C. in which about 2,900 delegates participated from 137 countries around the globe. The goal was

[1] Facts and figures extracted from various reports published by UN Deptt. of Public Info., April, 2000

[2] Financial services include deposits and savings, loans, money transfers and insurance to small enterprises or income generating activities and borrowers focusing usually on poor.

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set to reach 100 million poor families worldwide, particularly the poor women, through microcredit by the year 2005 (Ahmed 1999a). The argument in favour of microcredit has by and large been convincing. It has been reflected in the decision taken by UN General Assembly to declare the year of *2005 as the Year for Microcredit.*

As opposed to the orthodox view of commercial banks about the poor conceived as non-bankable, microfinance upheld the basic principle of human rights by facilitating and providing access to the credit for the poor without collateral. The essential features of a microfinance programme entail : flexibility in design and implementation; targeted to the intended beneficiaries; participatory in institutional and outreach mechanism; careful and close supervision , monitoring and continuous innovation.

In poverty alleviation efforts, lack of access to financial services to the poor is often a critical constraint. Therefore, access to microfinancing is a strategy pursued to achieve economic empowerment of the poor, particularly women. Coinciding with vast expansion of international interest in the efforts of poverty alleviation, is the growing belief that microfinance may be the world's answer to the growing endemic poverty. Usually the focus is on poor households who are otherwise not reached by formal financial institutions or in the words of Prof. Yunus ûntouchables' for the formal system which insists on collateral. The resources for microfinance have further been enhanced and gained momentum by the establishment of Consultative Group to Assist the Poorest (CGAP) in 1995 by multi-donor efforts initiated by the World Bank.

The South Asia, with 29 percent of the world 's population is also home to about 43 percent of the world's poor or about 500 million people. The incidence of rural poverty in South Asian countries is much higher than in most of the Southeast Asian countries. The region-wise break down of available statistics indicate that the highest (seventy six percent) microfinance funding is concentrated in Asia followed by 21 percent in case of Latin America and the remaining 3 percent funding in microfinance goes to Africa (Khandkar 1998). In terms of outreach, 22.34 million clients which include 16.89 million in Asia were reported worldwide by 929 MFIs (including 330 in Asia) as on May 1999. The projected number of microcredit borrowers by the year

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2005 are around 78.41 million against the target of reaching 100 million set by the 1997 Microcredit Summit

The formal financial sector in Bangladesh comprises : (1) Government Organisations namely Primary Societies, BRDB and BARD's Projects, and the Ministries of Women and Youth Affairs; (2) Nationalised Commercial and Specialised banks including Sonali, Janata and Agrani; Developmental Financial Institutions viz.: BKB and RKUB and Specialised Bank viz:GB. The semi-formal sector comprises of a large number of credit-NGOs. The development of microfinance is closely related with emergence of non-governmental organisations (NGOs). While relief, rehabilitation and awareness building were the prime objectives of the NGOs, before mid-eighties, poverty alleviation through the provision of microfinance has become the central programme objective of almost all NGOs today. In fact, the NGOs' initiatives in the field of microfinance is largely due to ' *felt need* ' of the people for credit and financial services coupled with the realisation that access to credit from the formal financial institutions is lacking. Increasing number of practitioners including Robinson(1995), Otero and Rhyne (1994), Rutherford (1995) and Wright(1997) have recognised the importance of offering a range of quality, flexible financial services in response to the wide variety of needs of the poor.

The poor are not homogeneous. In case of Bangladesh, officially defined two poverty lines provide basic parameters to explain *absolute poor* ***with caloric intake of 2122 kilocalorie and extreme or*** **Hardcore Poor[3] (HCP)** *who can have caloric intake of less than 1805* ***kilocalorie*** *(BBS, 1998). These are estimated in monetary term based on consumption (expenditure) considering the basic needs of food, clothing and shelter.* A distribution of households of Bangladesh is illustrated in **Map I .1** It reflects region-wise poverty concentration in terms of percentage of poor households to the total households. It may be seen that Rangpur, Jamalpur, Mymensingh, Faridpur and

[3] The term Hardcore Poor (HCP) is synonymous to extreme poor (also used in BRAC's study 1998) or poorest of the poor including vulnerable poor (also used by Helen Keller International in the analysis of their surveys conducted in Bangladesh).

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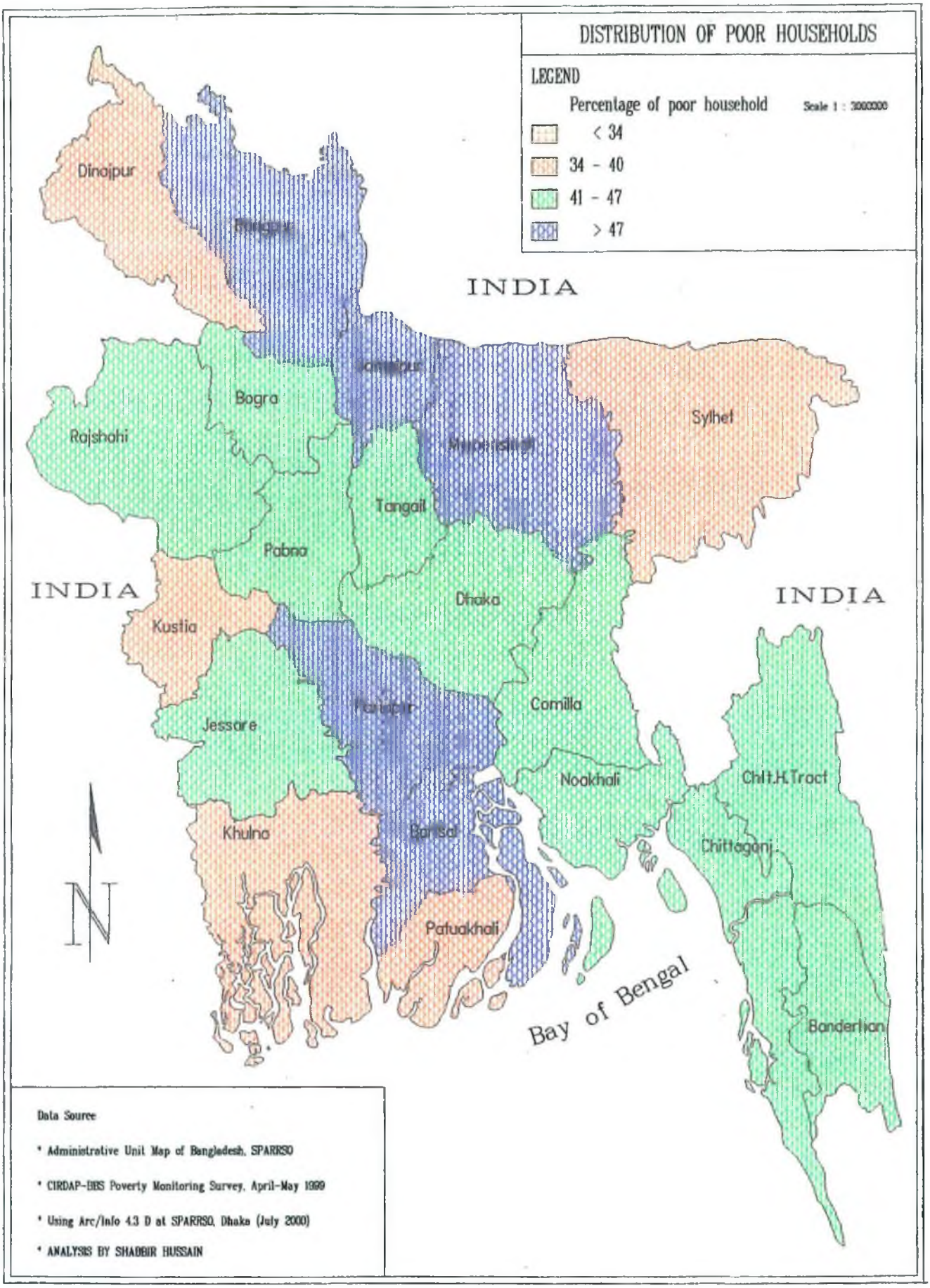

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Barisal regions have households with greater than 47 percent poverty incidence. Despite considerable success in terms of outreach[4], studies in Bangladesh and other countries show that *microcredit is able to serve only 35 percent of the target* population leaving out HCP. Bangladesh is a country which has 2 percent of the world population inhabiting more than 4 percent of the world poor.

In the present study, the Microfinance Institutions (MFIs) refer to NGOs which operate microcredit programme, following " Credit Only" or minimalist approach, such as Association for Social Advancement (ASA) in Bangladesh and (or) those which undertake microfinance as one of their programme components, following " Credit plus" or holistic or integrated approach, such as Bangladesh Rural Advancement Committee (BRAC) and Proshika. The Grameen Bank (GB) in its present status, is not an NGO but a specialised financial institution for the rural poor operating in the formal sector. Based on its scope and operations, GB is also included under MFIs.

Rationale of the present study

A major limitation observed in most of the studies on poverty and microfinance is that there exist very limited or inadequate **linkage** and relationship between HCP (**Demand** side - ability to access credit and to make profitable use of funds) and the existing microcredit mechanism (**Supply** side - nature of present credit delivery mechanism). A few studies such as Alamgir (1997 c); Khandker(1995); Backton (1999); BRAC(1996) have made partial and narrow attempt with inadequate analysis of the issue of MFIs outreach towards HCP. One cannot find any appropriate framework for systematic analysis. Again in these studies one cannot find appropriate linkage between demand and supply sides. There exists an obvious gap in the body of knowledge for making an assessment and evaluation *of MFIs outreach towards HCP.*

[4] **Outreach** refers to participation density. It may be measured as the number of participants in a specific programme (in this case the microfinance programme) per 1000 people in a particular area. Iin this study area refers to regions or greater districts. Membership of MFIs and disbursement of loan amount have been used as outreach indicators in this study.

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With this backdrop , the issue requires an updated look to fill up the missing gaps through qualitative as well as quantitative analysis of linkage between MFIs and hardcore poverty. The recent research completed by Matin (1998) ; Dowla(1998) , Rahman A and Razzaque et. al. (1998), CIRDAP (1999c) and others has also identified it as vital issue and suggested to pursue it as an important area for further study. This study finds itself on apposite juncture to attempt this issue. Therefore examining critically the access of MFIs towrads the hardcore poor is a vital issue of major concern confronting majority of the development partners and stakeholders including academics and researchers , practitioners, policy makers, donors etc. Thus, there is an eminent need to study this issue from the perspective of examining the Efficacy[5] of MFIs in reaching the HCP in Bangladesh.

1.2 Objectives, Hypothesis and the Methodology of the Study

1.2.1 Objectives of the Study

The major objectives set forth for this study are:

(1) To understand poverty incidence (as a background) in regional perspective concentrating specifically on Bangladesh and attempt to review strategic approaches and programmes with particular focus on microfinance as a strategy of reducing poverty ;

(2) To review, compare and draw inferences of MFIs and selected safety net programmes evaluating their outreach to hardcore poor ;

(3) To identify and quantify HCP (demand perspective) poverty pyramid, analysing factors and impediments faced in reaching HCP by MFIs (supply aspect) and to analyse the exclusion of HCP from becoming participants in the main stream of socio-economic development in Bangladesh ;.

[5] The term **Efficacy,** as it appears in the title of the study, means the extent of intended effect focusing on the outreach of MFIs towards reducing poverty. The factors set for analysis (in this study) to determin efficacy are : *poverty* condition; *demand* for microfinance, *cost* of providing services and the *risk* of conducting microfinance operations in the target area.

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(4) To analyse placement of selected MFIs in various regions[6] of Bangladesh devising a framework for regional based poverty measures and assessing their efficacy in targeting the poor households ; and

(5) To suggest major recommendations and policy implications based on the findings of the study.

1.2.2 Issues for In-depth Investigation

The issues related to the exclusion of the HCP can broadly be categorised into two types : (I) the *supply* side factors pertaining to operational mechanism and delivery of services of MFIs and (II) *demand side* factors (requirements) impinging on HCP. One step **Bottom-ward** and one step **Upward** are probably the two *threshold approaches* to undertake the challenge facing to the microfinance sector at the start of new millennium The bottom-ward approach is mainly concerned with the **Hardco re Poor** envisaging a graduation process from survival activities (creating safety net and providing consumption credit) to undertake Instant Income Generating Activities (IIGAs) . The Upward approach mainly concerns the beneficiaries of microfinance who have shown their worth and potential in IGAs and are trying to be scaled up. This approach is merely a graduation process from IGAs to microentrepreneural activities .

If the social programmes of the NGOs are " *Open for All*" and according to Rahman (1998) and Prompt (1998), about 90 percent of the respondents perceive *NGOs as lending agencies* then one needs to explore the implications towards the HCP. This study entitled " An analysis of the Efficacy of Microfinance in Reaching the HCP in Bangladesh" makes an attempt to address the first issue ie the bottom-ward approach (related to HCP)

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[6] Latest Poverty Monitoring Survey carried out by CIRDAP-BBS during April –May, 1999 is based on 21 regions. The names of the regions (greater districts) are : Barisal, Bogra, Chittagong, Comilla Dhaka, Dinajpur, Faridpur, Jamal pur, Jessore, Khulna, Kishoreganj, Myemsingh, Noakhaili, Pabna, Patuakhaili, Rajshahi, Rangpur, Sylhet, Tangail and Chittagong Hill Track (CHT).

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1.2.3 The Hypotheses

The present study intends to examine the above issues in detail. Accordingly, the hypotheses may be drawn as follows:

(i) There exists a mismatch between the demand side ie anotomy of HCP and the supply side ie the chemistry of MFIs outreach. The MFIs with their existing operational mechanism have not been able to reach the HCP significantly.

(ii) The placement of the branches of MFIs have substantial mismatch with the poverty situation in various regions of the country. The location of the branches is skewed towards the better-off infrastructure facilities rather than focusing on poverty indicators.

(iii) Special interventions are necessary with appropriate approach and effective mechanisms which suit the needs of the HCP. Some of the programmes may have performed better than the others.

(iv) In order to reach HCP, optimum allocation of resources is required (at the level of greater districts) to match the implicit demand of microcredit and the supply by MFIs.

1.2.4 The Methodology and Sources of Data

The study concentrates mainly on synthesis and analysis of relevant facts and figures exploring and quantifying the gap or mismatch between the two ends (HCP and MFIs).

The Methodology

The present study follows three-pronged approach to address the main issue of the efficacy of microfinance institutions in reaching the HCP in Bangladesh. **Firstly**, understanding the nature , extent and intensity of poverty incidence, indicators, trend and estimates of HCP in Bangladesh. Looking in broader perspective with a view to examining poverty situation (characteristics and causes) and poverty

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alleviation strategies in the countries of the region and particularly focusing on microfinance as a strategy in reducing poverty. The concept of **Poverty Pyramid** (theoretical) may be another analytical tool suggesting decomposition of poor into five various strata or echelons of the people (vulnerable or HCP, labouring, self-employed, entrepreneural and near poor) lying below the poverty line.

Secondly, exclusion of the HCP in microcredit is the core theme and major concern to be addressed in this study. A framework of selected parameters have been devised for comparative analysis of selected MFIs to examine their efficacy considering the approach and institutional mechanism and regional (greater district wise) outreach in targeting the poor. In depth investigation of the supply side alternative mechanisms envisiging various MFIs and demand side characteristics of HCP including demand of microcredit for the poor households in the country will help in understanding targeting and quantifying the extent of mismatch among these.

Thirdly, to examine the experiences of some selected safety net programmes such as Food for Work (FFW) and Vulnerable Group Development (VGD). A comparative analysis of their outreach will explore the best practice which may be amenable to a sustainable mechanism for bringing the echelon of HCP in the mainstream of socio-economic development.

Sources of Data

The study is mainly based on secondary data from the following major sources:

(a) **The Poverty Monitoring Survey 1999** conducted by Bangladesh Bureau of Statistics (BBS) which adopted a large sample of 16000 households. The survey has produced poverty measures separately for urban and rural areas by desegregating at the level of 21 regions (greater districts) of the country. The previous four similar surveys (1995 to 1999) used a relatively small sample which provided poverty statistics showing urban and rural breakdown by national level aggregation only. The 1999 survey is unique being the first of its kind providing information on regional poverty lines

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which are very much required to serve as input for the analytical framework of this study.

(b) **CDF[7] Statistics** Credit Development Forum compiles and publishes statistics on periodical basis. In order to make it systematic, a uniform format was developed for analysis of outreach parameters (membership, savings, loans disbursement etc) Extracting data on various issues, analysis was carried out made for selected MFIs[8] with regard to their past five years performance (1995-99, as of December each year).

(c) **MFIs Hqs** The data which was not available with CDF such as region-wise outreach, was collected, synthesised and compiled from the record maintained by the related sections in the head offices of major MFIs (GB, ASA, Proshika and BRAC). However, limitations of lacking the uniformity of data were overcome with certain assumptions.

(d) **UN and International Agencies** Relevant data on HCP and MFIs has also been extracted from the published reports to substantiate analysis on various aspects of the issues. Such sources include: UNDP (HDR 1999,2000; UN Poverty Report 2000, Human Development in South Asia 1999) ESCAP, ADB, World Bank and CIRDAP.

(e) **Papers presented and discussions** held during national and international seminars, briefing sessions and workshops organised by the author of this study in the official capacity while working at CIRDAP, Hq. Dhaka.

(f) **Observations, interviews and Focus Group Discussions** held with field officials, centre managers, beneficiaries and loanees in more than 30 villages during a series of eleven exposure visit programmes on microfinance in Bangladesh organised for more than one hundred managers of the various development banks, practitioners of

[7] Credit Development Forum (CDF) is a net work of more than six hundred MFIs in Bangladesh . It compiles statistics on six monthly basis.

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microfinance and development experts and high level delegates from abroad. A series of reports and publications prepared by the author on these exposure visit programmes are available in CIRDAP, Hq Dhaka, Bangladesh.

(g) **CMCs** : In the regional perspectives, data was mostly collected from selected countries which are member states of CIRDAP[9] (CMCs: CIRDAP Member Countries). The South Asian countries viz Bangladesh, India, Nepal, Pakistan and Sri Lanka have many common settings in terms of poverty situation and poverty alleviation initiatives and strategies. More than 50 percent of the world poor are concentrated in these countries. Besides, these countries have more than half of the world's microcredit borrowers and have further potential in microfinance initiatives at varying degree of outreach and impact. For instance recently, a microfinance bank has started functioning in Pakistan since mid August, 2000.

(h) **Other Sources** : ***HKI***'s 58 th round October, 1999 : Survey data on vulnerability, socio- economic, demography and distress indicators related to rural and urban areas; ***CPD*** : data on growth, VGD, FFW with survey sample of 1920 observations ; ***NAB***[10] *:* foreign funding of NGOs ; ***APP***[11]*;* World Development Vol 27 : Analysis of survey of 121 Thanas in Bangladesh. Extracted variables are on outreach equation, econometrics and regression analysis; related articles and news published in the daily news papers; information using internet. Some website addresses are given in the references.

(i) In addition to the above, personal interviews, discussions and meetings were held with relevant stakeholders to clarify the available data and gain deeper insight into important issues.

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[8] Besides major MFIs (GB, ASA, BRAC, Proshika) , data on 521 MFIs was also compiled on the district and regional basis envisaging outreach statistics such as membership, savings of the member, loans disbursed, loans outstanding, recovery and recovery percentage etc)

[9] Centre on Integrated Rural Development for Asia and The Pacific (CIRDAP) is an inter governmental regional organisation of 13 member countries with its headquarters in Dhaka. Poverty alleviation in the region and rural finance / microfinance is a vital component included in its programme of research, training and pilot projects.

[10] NGOs Affairs Bureau (working under the Prime Minister's Sectt.of the Government of Bangladesh

[11] Analysis of Poverty Project (BIDS)

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The major MFIs i.e, ASA, GB and BRAC which are included for analysis in this study are among the best 30 microfinance practitioners all over the world. The UNDP, under its Microstart Programme being implemented in 25 countries has also entrusted these three MFIs as Technical Services Provider (TSP)[12]. The basic criteria for selecting these MFIs as also set forth by the UNDP (2000) are: poverty oriented lending, no. of clients, percent of women clients, experience in operation of microcredit, portfolio, staff qualities and publications. ASA, BRAC and GB represent overall MFIs sector as they have more than 80 percent presence at grassroots outreach in the country. Representing both the public (Grameen) and private (semi-formal) sectors in the country, they can provide insights on the main approaches which are followed in delivering microfinance i.e Credit Only (ASA, GB) and Credit Plus (BRAC). Adequate documentation and literature is available in English language.

1.2.5 The Limitations

Due to time and resource constraints , collection of primary data through special survey was not possible. The format of data available on MFIs varies as there is no standard or uniform reporting system. **Proshika** works on the basis of Area Development Centres (ADCs). The data used for analysis in this study is as of 31 st March, 2000 envisaging 166 ADCs as of having 81797 groups (33863 male and 47934 female groups) with a total outreach of 1,587,639 members organised into groups (of average size being 20 members) working under ADCs. **ASA** maintains its Management Information System on district based operational in 61 districts but these districts are not the same as the administrative districts of Bangladesh. **BRAC**'s districts are called regions. It compiles its data on the basis of 4 divisions (Dhaka ; Khulna and Barisal,; Rajshahi,; Chittagong and Sylhet). **GB's** regions are not the same as that of administrative regions of the country.

All the MFIs except GB, are out of the regulatory framework. Therefore, they have no bindings to maintain and produce any information on specific format.

1. Hossain M Azim , *A New Innovation in the Microfinance Services*, Published in the daily

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Similarly, all the MFIs are not providing information to CDF. The study makes use of 524 MFIs reported by CDF as of June, 1999. The limitation of data was overcome with a number of assumptions in order to bring it into desired format needed for Poverty Mapping and developing Regression Models.

Country wide data on poverty at Thana or district (at present 64) levels is not available. Therefore, the models developed by the author are based on region-wise (21 regions) data on poverty. Similarly, the quality of data obtained from MFIs is also of questionable accuracy. Depending upon the availability of relevant data, there is a scope for further refinement and expansion of these models.

1.3 Framework of the Study

The framework of the study (illustrated in **Fig 1.1**) envisages : (1) MFIs entailing both the approaches of microfinance : credit only (GB, ASA) and credit plus (BRAC, Proshika) and other 521 MFIs are included in the study. The selected parameters related to outreach analysis of MFIs are : membership, savings, loan disbursement , repayment and loan outstanding. Trend analysis is based on the performance of major MFIs (GB, BRAC and ASA) which cover about 85 percent of microfinance operations in the country. The reference period for comparative performance is the recent past 5 years (1995-99) ; (ii) A synthesis of region-wise (21 greater districts) break up of : (a) latest outreach of selected MFIs as of 1999 and (b) number of poor households and estimated number of HCP households as of 1999

Findings of the study are based on : (a) input data from poverty monitoring survey. The input data used for Operational Research model (Linear Programming) is derived from the region-wise number of Poor House Holds (PHH) and twenty one region-wise poverty lines and the threshold income to cross poverty line considering average rate of return on rural income generating activities in the country ; (b) Multiple Regressions Models which require input of region-wise demand obtained from the output of LP model which is taken as dependent variable and outreach parameters of selected MFIs taken as explanatory variables. These models determine

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The Independent of 02 April, 1999

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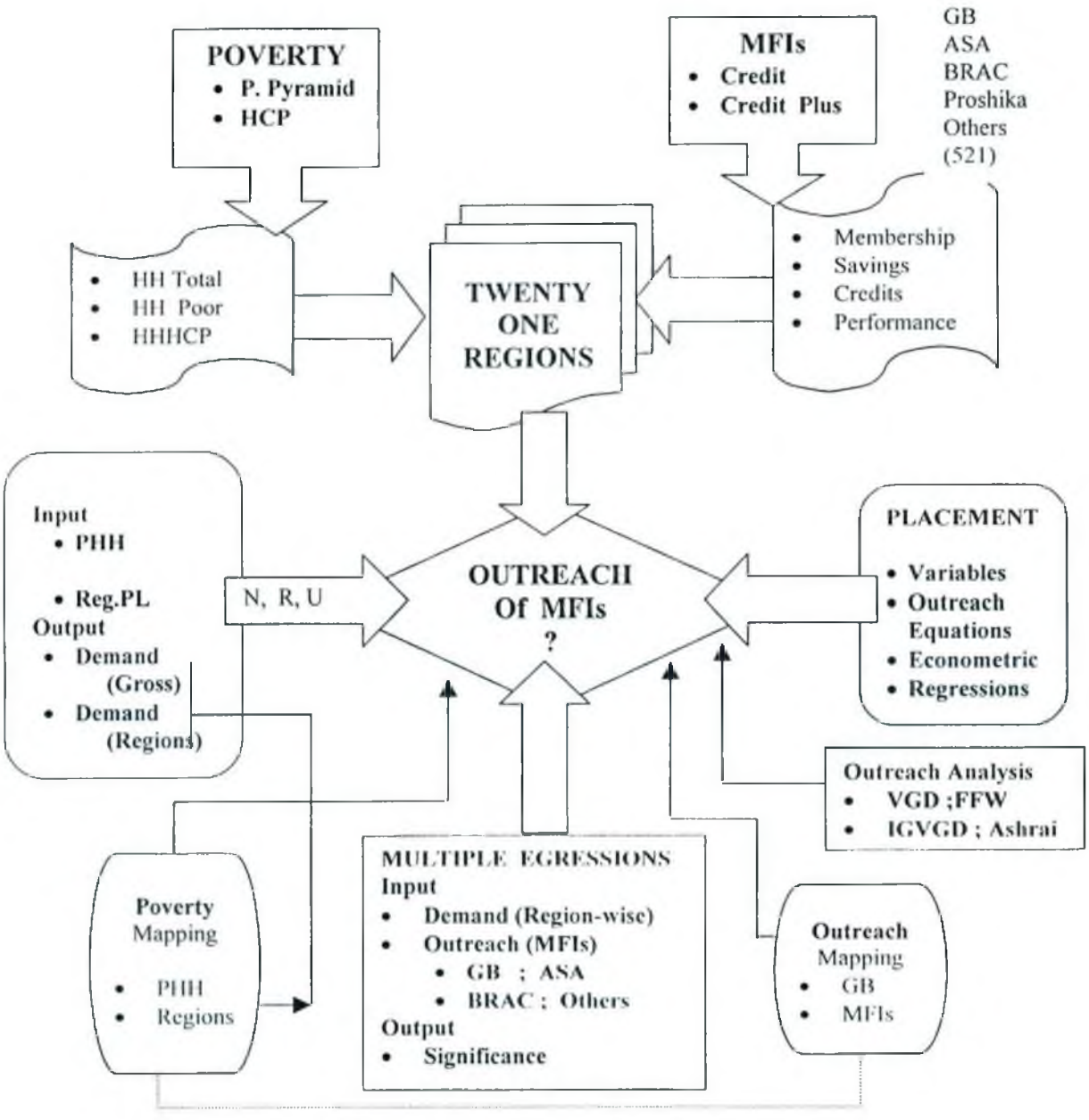
comparative significance of MFIs towards reaching the poor households(PHH). Multiple regression and correlation analyses have been carried out by making use of SPSS (ver 7.5 for windows) package.; (c) **Analysis of the determinants of Placement of Branches** using outreach equations, econometric and regression analysis of ASA, BRAC and Proshika.;

Fig 1.1 **Framework of the Study**



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(d) **Outreach Analysis of Safety Net Programmes** using poverty indicators such as: land ownership, literacy, per capita income etc. The safety net programmes include : VGD, FFW,IGVGD and Ashrai. ; (e) **Mapping of Poverty vs MFIs**, which indicates regional mismatch among the two entities. It makes the analysis easily understandable, convencing and innovative. PopMap package (a geographic data base software windows based 1999 version developed by the UN Statistics office Geneva) has been used for developing a specialised application.

1.4 Organisation of the Thesis

The problem settings, methodology used , sources of data, framework and limitations of the study are presented in Chapter 1. Reviews of literature on the subject is presented in Chapter 2. Chapter 3 deals with perception of poverty focusing on hardcore poor and a review of microfinance strategy of reducing poverty. Chapter 4 concentrates on the supply side factors including operational mechanisms and profile of MFIs, outreach analysis and comparative performance analysis of major MFIs ASA, BRAC and GB..

Chapter 5 is devoted to identify, characterise and quatify the hardcore poor in Bangladesh. The chapter looks into the causes of exclusion of HCP to become the participants of microfinance programme. The chapter 6 provides an analytical framework on the outreach perspective bringing together both the analysis of the demand side characteristics of HCP and supply side infrastructure and operational mechanism of selected MFIs. Finally, the summary of findings and major policy recommendations are given in chapter 7

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Chapter II

REVIEW OF LITERATURE

Over the past three decades, Microfinance has increasingly gained momentum worldwide as one of the seminal strategies aimed to reduce poverty. Micro-credit is usually provided through a social mechanism such as group based lending with the objective to reach the poor particularly the women who lack access to formal institutions in most of the underdeveloped world. Among the familiar Microfinancial Institutions (MFIs) are : Self Help Groups (NABARD) in India, Bancosol in Bolivia; Amania Ikhtiar in Malaysia; Kenya Rural Employment Project (K-REP) in Kenya; Bank Rakyat Indonesia (BRI) in Indonesia; Grameen Bank, Bangladesh Rural Advancement Committee (BRAC), Association for Social Advancement (ASA) and Proshika in Bangladesh. Supporting MFIs, many international agencies such as ADB (1999c), CIRDAP(1999), ILO(1997) and APO (1999) placed emphasis on scaling up the microfinance operations. Some other studies have recorded performance of MFIs as successful financial intermediation in executing microcredit programmes. Dowla(1998), Hussain (1999), Hye (1996), Khandker (1998) strongly believe that MFIs are emerging as an effective tool for alleviating poverty.

Promotion of group dynamics by MFIs for organising communities at grass-root level has been appreciated in a number of studies including AKRSP (1998a) ; Rahman M. (1994); Chowdhry N, (1996); Grameen Bank,(1994) and CARE, (1997). The role of MFIs as a conduit for improvement in socio-economic development was appraised in studies conducted by BRDB(1997); Counts (1996) and BRAC(1996). According to Rahman R,I, (1998) and CIRDAP (1997), the empowerment of women was being observed as one among the salient features of the programmes executed by MFIs. As a practionar, ASA (1998) placed high emphasis on the need for institutional sustainability of MFIs. Alam (1993) and Ahmed S (1999) highlighted substantial outreach of MFIs.

International and national forums including CGAP constituted by the World Bank and Credit Development Forum comprising more than 600 MFIs in Bangladesh

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{CDF(1997a)} carried out studies on promoting effective role of MFIs in reducing poverty. A reasonable number of studies indicate that Microfinance has achieved success in reducing poverty {Sharif (1998); Khandker (1998); Joe(1991); Santos(1999); Mujeri (1999); SANFI(1997); Rahman(19920; Yunus (1993)}. There is a long history of efforts for poverty reduction in South Asia. The realisation that poverty was growing rapidly despite economic growth became acute during the 1970s. Many countries designed special poverty alleviation progarmmes[1]. The perception of the elements that made these programmes effective has changed over time and the *emphasis was varied from employment generation to human capital creation and community participation.* The experience of various strategies and programmes implemented by Asian countries to reduce poverty may be concluded to be envisaged into two approaches : (1) productive use of labour and (2) providing basic social services to the poor. *Microfinance helps in the productive use of labour mainly by creating self employment and creating income generating opportunities in the informal sector.* (WB 1990). Overcoming human poverty through access to microfinance has become a common strategy pursued to achieve economic empowerment of the poor, particularly women

Some other studies concentrated on outreach at grassroots level include Anwar (1999); ADPC(1991); ASA (1996 a). The increase in income of beneficiaries through microfinance have been observed in many studies including AKRSP(1996); Ahmed (1983); IFAD/OECD(1997); CIRDAP(1999b); Kadri(1999); Khandker(1995); ADBN(1999); Hussain(1999). Some studies have also shown positive impact of microfinance in terms of socio-economic development and improvement of the poor such as Islam R (1998); Khandker,(1995); Khan(1996); Rahman (1998) and Dowla (1998). Rahman (1998) concludes that microcredit has evidently resulted in economic and social empowerment of the poor, particularly the women. Recognising substantial contribution of MFIs, Ministry of Finance of the Government of Bangladesh (2000), SANFI (1997, Bajwa R, (1998), BRDB (1998), GOP (1998a),

[1] Mahboobul Haq Centre for Human Development, (1999b); *Human Development in South Asia (1999) :*

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Chowdhry. T(1998) argued for including microfinance as one among the strategic approaches for poverty alleviation.

One of the major limitations observed in the above studies is that the issue of targeting hardcore poor by MFIs has not been assessed. Recently somewhat related issue of drop outs of beneficiaries in MFIs programme was included in the studies conducted by ASA(1996b); BRAC (1996). It has substantively realised that the microfinance has significantly been able to reach the *better echelon of the poor*. This notwithstanding, the hardcore poor (HCP), by and large remained outside the coverage of MFIs. Assaduzzaman (1999 b) recognises it as a crucial issue which needs further research to find out causes and effects of excluding hardcore poor from MFIs' programmes. A critical analysis is required to assess the extent of outreach of MFIs.

Bangladesh offers an adequate and unique infrastructure for analysis of poverty and MFIs. The world-renowned, Grameen Bank with a unique operational mechanism of 1143 branches and 67,610 centres (village based) is serving to about 2.4 million members in 39,635 villages. By and large it has proved the success of group dynamics and demonstrated that the poor are bankable. More than five hundred NGOs deploying about 50,000 paid employees (CDF, 2000) are exclusively engaged in providing microfinance services with an active membership exceeding 8 million (as of June 1999) of which 85 percent are female. BRAC, ASA and Proshika are among the internationally renowned NGOs with extensive infrastructure capacity and capabilities as MFIs. Amazingly, all these MFIs also admit that most of the HCP are out of their coverage.

Poverty has traditionally been defined as deprivation or absence of a certain standard of living. It is considered as a discrete characteristic either one is poor or one is not. Usually a line (at times notional) on the basis of a welfare or a basket of welfare indicators is drawn and an individual or household is classified on one side or the other of this line as being poor or non poor. Thus defining poverty consists in classifying the

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The crisis of Governance, Oxford University Press .

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population into the poor and the non-poor. Measuring poverty seek to aggregate the "amount" of poverty into a single statistic.

While defining poverty in terms of "Welfare" we presume the existence of a utility function, which stipulates that the consumption of goods and services raises welfare. It is further assumed that each individual or household possesses the same utility function. Since consumption data are often collected at the household level, it is convenient to work with household utility function. In practice, one should ultimately identify the poor in terms of people, not households. But with only household level consumption data available, one has little choice but to assume that all members of each household enjoy the same level of economic well-being. Ironically this ignores the important question of the intra-household distribution of consumption, particularly in relation to implicit gender bias.

Given a household utility function, household welfare levels can be compared using cost function, which specify the amount of money required by a utility- maximizing household to obtain a given level of welfare. This allows one to compare households welfare levels, which one cannot observe. However , comparison of their consumption levels can be observed. Household consumption is measured in terms of expenditure on goods and services with allowances made for on – farm consumption, owner occupied housing, etc. A serious limitation of this approach is that welfare derived from leisure, pleasure and pure public goods are not accounted for. Household consumption approach has two major problems. First is the time horizon – the process of poverty is dynamic and therefore its level changes over time. One year is thought to be acceptable. Estimates are however available even for shorter periods. Household income& Expenditure Surveys are primary source of data for estimation of incidence of poverty in many countries. These surveys are conducted periodically. Sometimes the frequency of such surveys is erratic. The second problem is household composition as each member of the household does not consume equal amount of goods and services. At times adjustments are made for household composition on the basis of equivalency scale.

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A major problem in assessment/ measurement of poverty is that of data collection. Poverty indicators in some countries are calculated as a by- product of national statistical systems. In some countries special surveys are conducted to measure poverty, among other things. International organizations have also made attempts to measure poverty through various methods and have also made attempts to measure poverty through various methods. Indicators have also been taken to strengthen national statistical system so that they yield reliable estimates on poverty. Among such efforts are UNHCSP (United Nations Household Capability Survey Programme) , under the auspices of UN Statistical office. The World Bank also came up with its own instruments like Living Standard Measurement Studies (LSMS) and Social Dimension of Adjustment (SDA) .

Approaches of estimating Poverty

The estimates of poverty prepared in various countries by many authors even by applying same source of data differed quite considerably. Some common measures for assessment and measurement of poverty are discussed below:.

(1) Per Capita Income is commonly used as a welfare indicator. There are two main criticisms of its use in defining poverty. The theoretical objection is that in many developing countries, the incomes of a large portion of the population may vary from year to year. The income of agricultural cultivators are the best example. The income hypothesis suggest that there is a strong tendency for people with variable incomes to save in abundant years and not to save in lean ones. Thus a given year' s income may not match a household 's average level of welfare as generated by the consumption of goods and services overtime. The practical problem of using income to indicate welfare lies in the measurement of incomes of people who operate their own farm or business. Records of family businesses are often not kept, and the concept of profit itself is unclear. These arguments are less convincing for wage earners for whom reliable income data can usually be obtained. However, wage earners form only a small portion of the population in under developing countries while the permanent income argument still holds.

(2) Household Consumption and Per Capita Consumptions expenditures is a particularly attractive welfare indicator because of its sound theoretical basis, as argued above. While theoretical considerations call for the use of household equivalence scales

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to adjust for household size, calculating such scales is controversial. This controversy is often avoided by using either total consumption or per capita consumption.

(3) Per Capita food consumption Some economists propose per capita food consumption as a measure of welfare. One advantage is that the data requirements are fewer. Non-food consumption can be ignored, and associated problems, such as estimation of the value of owner-occupied housing, are circumvented. Second, food consumption may be more accurately reported in household surveys than non-food consumption. Third, it is of often easier to construct food price indices than to make price comparisons for non-food items. Yet the major strength of this method, its focus on food alone, is also a serious weakness: the consumption of non-food necessities such as clothing and shelter is ignored. Moreover, the measure depends directly on a household's propensity to consume food, which may vary across households.

(4) Food Ratio: is the fraction of the household budget spent on food. The popularity of this measure stems from two observations by Engel, who noted that the food ratio was inversely related to the size of a household's total budget, and that it increased with family size. Based on the former observation, Engel hypothesized that the food ratio can serve as a welfare indicator. The second observation is often used as a basis for calculating household equivalence scales. Indeed, one of the appealing properties of the food ratio as a welfare indicator is that there is no need to adjust for household size or any other difference in household characteristics. Despite its attractive properties, recent research has shown that the first observation ("Engel's first law") may not always hold for the poorest households in developing countries (Thomas, 1986). This casts serious doubt on the use of this welfare indicator as a measurement of poverty.

(5) Calories: Under this method it is suggested that food consumption data should be used to directly focus on calorie intake rather than on food expenditures or the fraction of a household's budget spent on food. The appeal of this approach is that it has certain objective foundation in nutritional studies such as Jelliffe,(1979). Yet the objectivity of calorie-based definitions of poverty has been challenged (see Srinivasan, 1981;Sen 1981, and Lipton, 1980), and the data requirements are very large. Finally , focusing on calories again omits the non – food component of economic welfare.

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(6). Medical Data: one set of indicators that may have practical relevance comprises medical indicators of health and nutritional status. These include anthropometric measures to determine the incidence of stunting (low height for age) and wasting (low weight for height), as well as medical tests (see examples cited in Berg, 1987). These measures are particularly relevant when focus is on the adverse effects of poverty on young children. While it is fairly easy to obtain height and weight data in household surveys, other medical data may be difficult to gather. In addition, using medical data to define poverty may be misleading, because although health is correlated with household welfare, it is not identical to it. However, poverty if measured by consumption data, is highly correlated with health, therefore it may be helpful to use medical data to identify the poor.

(7) Basic Needs is another approach to determine the economic well – being of a household (Straiten, 1981 and Stewart, 1985). Rather than determining the total consumption of a household, or accepting a proxy measure for this concept, households are defined as poor if their food, clothing, medical, educational, and other needs are not met. Such needs are exogenously defined, for example, by groups of experts on nutrition, health care, shelter, and so on. There is usually no attempt to aggregate various aspects of basic needs into a single welfare indicator, which complicates the classification of households as poor and non- poor . A second problem with this approach is the subjectivity involved in determining adequate levels of health care, housing, education, cultural amenities and so on.

(8) Physical Quality Life Index (PQLI) : this index takes into consideration several factors for quality of life and makes a composite index. Some of the variables used in computation of PQLI are : life expectancy, infant mortality and literacy into an equally weighted composite index.

In many studies undertaken in Asia, during the past decade, poverty line[2] is equated to a per capita income needed to supply minimum daily per capita calorie requirements. Some studies have focused on determinants of rural poverty being lack

[2] The concept of poverty line, according to ILO (1977)[2] is an attempt to set a minimum standard of living, in terms of diet, clothing, sanitation : one that permits a family to lead a relatively healthy and active life, even if they are deprived in other areas such as work and schooling

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of access to financial resources and social services, vulnerability to frequent disasters (Alam, 1993; Hossain, Ziller, 1998; Hossain Mahboob and Sen, 1992; IFAD, 1992). Normally, poverty line in monetary terms is used to portray the extent of problem. For example internationally, the level is defined as dollar a day. The basis of poverty line is the income sufficient to supply the official calorie requirements for a country, weighted for regional differences. The poverty lines derived in this way provide glimpse into trends of poverty.

A few critical Observations

Some recently carried out studies such as CIRDAP(1999a); Kardi(1999); MHCHD(1999a), HKI(1999b,c) indicate that poor are not homogenous. Further analysis is required to study various segments of population below the poverty line. The perception of the concept of hardcore poor entails multiple aspects such as minimum caloric intake (BBS, 1998), basic needs (advocated by WHO, WB, FAO); per capita income, deprivation and restriction of opportunities (Haq, 1998, Chamber, 1988, Schultz,1964) in terms of isolation, physical weakness and powerlessness. Haq (1998) observes, "What is critical for human progress is poverty of opportunity, not just poverty of income. Poverty of income is often the result. Poverty of opportunity is a multidimensional concept, embracing lack of education and health, lack of economic assets, social exclusion and political marginalisation"

The UNDP defines Extreme Poverty (often called absolute poverty) as " Lack of income necessary to satisfy basic needs – usually defined on the basis of minimum calories requirements" ; Relative Poverty is defined as " Lack of income necessary to satisfy essential non food needs – such as for clothing , shelter –as well as food needs" ; and The Human Poverty as, " Lack of basic human capabilities : illiteracy, malnutrition, abbreviated life span, poor maternal health, illness from preventive diseases. The indirect measures are lack of access to goods, services and infrastructure – energy, sanitation, drinking water – necessary to sustain basic human capabilities". The concept of extreme poverty may also be referred to as synonymous to the Hardcore poor. Some studies have extensively focused on various aspects and dimensions of poverty. According to BBS (1995) poverty decreased until mid eighties but later on it remained stagnant or

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sometimes worsened. This view is also supported by ibid, 2000 b; Hye, 1996; Hossain Mufazzel, 1999.

The lack of access to financial resources and social services and vulnerability to frequent disasters have been considered as determinents of rural poverty in many studies such as Alam(1993); Ziller(1998); Mahboob and Sen(1992); IFAD(1992). The studies on measurement of poverty and poverty correlates establish that poor are not homogenous . Such studies include {Remenyi (1974); CIRDAP(1999a); Kardi(1999); MHCHD(1999a); HKI(1999b,c)}. Some other studies concentrate mostly on various features and operational mechanism of MFIs such as : outreach at grassroots level such as Anwar (1999); ADPC(1991); ASA(1996 a).

In his Nobel prize winning analysis of poverty and traditional agriculture, one can recast Schultz (1964) as a pioneer of viewing poverty as essentially the result of "Restricted Opportunities". Schultz argued that the poverty of traditional systems of village agriculture is the direct result of the fact that their resources, including their knowledge base, is limited. About a hundred years ago poet Tagore said , " *Lacking money is not enough to define poverty. Lack of confidence keeps people poor. They can never dream of being rich .*". Chambers (1988) rightly mentions " The victims of poverty not only suffer from income deprivation but also from a host of other constraints ". He dis-aggregated deprivation into five dimensions: (1) P*overty proper:* Lack of income and assets; (2) *Physical weakness: M*alnutrition , sickness, disability, lack of strength; (3) *Isolation : I*gnorance, illiteracy, lack of access, peripheral location; (4) *Vulnerability : T*o contingencies , natural disasters, to becoming poorer; and (5) *Powerlessness : U*nable to control one's own destiny, lack of political power, and (or) organisation

It is an emerging phenomenon that the poor are further differentiated by income and socio-economic status. Depending upon the nature and extent of poverty different studies have provided different echelons of poor. Rahman (1998) classifies poor into well off, middle, moderate and HCP on the basis of income distribution. Mc Guir (1998) endorsed BBS (1995) which identified absolute poor with daily food intake less than 1805 kal cal; HCP with calorie intake of 1805 k.cal and Ultra Poor with

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calorie intake being 1600 k. cal. CPD (1997) differentiates poor into Moderate poverty , Food poverty and Extreme poverty. Based on entrepreneurial potential, Bottom line (HCP) , Middle Line and Upper Line are also identified in the literature as three strata in the poverty pyramid. Poverty Gap and squared poverty gap are also commonly used in most of the recent studies such as CIRDAP (1999) . BIDS categorisation is based on their own selected multidimensional criteria through well-being ranking by different groups of villagers in Mumudia during 1998.

The crucial aspect is that microfinance does not embrace ' *all people below poverty line*'. It reaches those who are '*just below*' or *ón*' or '*just above*' the poverty line and leaves out substantial number of HCP (Subrahmanyam P, 2000). Whether it is a "*pull effect*" or "*push effect*", the echelon of HCP by and large remains outside the microfinance programme. According to the estimates by Women's World Banking (1995), in most developing countries, the formal financial services reach at a maximum top 25 percent of the economically active population, leaving bottom 25 percent without access to financial services apart from money lenders. Of the target poor households in Asia Pacific, less than 5 percent have access to financial services. If we exclude Bangladesh (which is the only country where large number has been reached), the numbers to whom microfinance services have been extended falls to less than one percent of the target group.

Despite enormous input by MFIs , certain studies also indicate that HCP (the bottom 20 to 25 percent) are still out of their main stream[3] activities. As Rehman A, 1998 and several other studies[4] have observed that it was only during the mid-nineties, that HCP have not been the beneficiaries of MFIs at large , rather the *better-off* members of the rural poor called *moderate poor* could improve their socio-economic position to some extent. Field level investigation reveals as pointed out by Rehman (1998) that the HCP were not targeted specifically for the microfinance programme,

[3] WFP-BRAC Phase ending Report 1998-99 IGVGD indicates that nearly 15 percent of all household in Bangladesh are headed by women of whom 96 percent belong to below poverty line and 33 percent of them fall in hardcor poor.

[4] Rahman , Atiur & Rahman M M, Shafiqur (1997). *Poverty in Bangladesh : A Monitoring Experience with Qualitative Tools, Part III, Draft Report of South Asia Poverty Monitor Project Report, 1997*

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rather a few number of these households participating in these programmes were brought perhaps incidentally rather than systematically. There are many variations in the findings with different degree of emphasis, but a large number of these findings agree as argued by Gibbons (1994) that the major reasons are the existing socio-economic and political power structure in the developing countries making the poor unreachable.

The Norwegian International Development Agency expressed its concern in Bangladesh Country Policy Document of January, 1996[5]. The report says "The NGOs have not yet taken to design a pro-HCP[6] approach to Poverty Alleviation. The existing saving and credit programmes have not been able to reach the HCP." Since then a few studies { (Alamgir (1997a); ASA (1997a); BRAC(2000); CDF(1997c); Rahman (1998)} have been carried out by NGOs to assess their own positions about targeting HCP. However, again these studies are very limited and narrow in their scope and approach lacking any comprehensive framework and systematic analysis.

One of the fundamental reasons that NGOs have received much attention, lately, is that they are perceived to have done something that national government has not been able to do. NGOs seem to have no intention or desire to compete with the Governments in their development efforts, on the contrary, most of the NGOs continue to interact heavily with government agencies. Fower (1990) remarked that the effectiveness of the NGOs depends to a great extent on the relationship of "*support and quality*" within the organisation. Whereas, the GOs in most cases inherited the colonial structure with top-down directives based on " *control and authority* " . Close guarding of the NGOs or incorporating them with GOs is likely to affect its uniqueness – support and equality.

Sanyal (1993), in describing the existing relationship between NGO, government and donors remarked that, " There is no doubt that NGOs and government still have differing pictures of each other in Bangladesh ... Government tends to see itself as having a monopoly on authority and policy making ... NGOs tend to see

[5] NOVIB Report on , "Bangladesh Country Policy Document: Summary Proceedings of Mid-Term Review Workshop", 1996

[6] The term HCP used in this study stands for Hardcore Poor.

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themselves as having superior claims to the truth, good intention and the interest of the poor. And yet some observers pointed out that the atmosphere of " *antagonistic cooperation*" actually serves the interests of all the actors concerned – the NGOs, government and donors who co-exist and inter-relate in the manner of joint family in which differences are accentuated in order to legitimize their respective , linked roles ...." (Lewis 1993 p56)

According to an estimate[7] with an 18 percent annual increase in consumption, a poor household of six members could be free of poverty by borrowing about Tk 12,000 ($ 300) a year. Poverty reduction estimates based on consumption impacts of credit shows that about 5 percent of programme participants can lift their families out of poverty each year by participating in and borrowing from microfinance programme. The effect of microcredit programs on village level poverty reduction is smaller. Overall, only 1 percent of rural households can free themselves from poverty each year through microcredit. Moreover, some of this reduction may result from income redistribution rather than income growth. The social cost of supporting microcredit programmes is low, being estimated as $ 11 per household per year.

A major problem faced usually by the financial sector is poor recovery from the borrowers particularly in the case of large size loans. Almost half of such borrowers become defaulter. The willingness to support MFIs is supported and inspired by the fact that most of the clients (90 percent plus in case of Bangladesh) repay their loans. Some analysts have failed to identify how loans do, in fact, get repaid with such a high rate of interest ranging up to more than 30 percent. The reports (eg PromPT, 1996, UNDP) are emerging from social workers that these high rates of recovery are due to either new loans from the MFIs themselves or from the Village Money Lenders as the last resort.

[7] Khandker, 1998 p148

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Empirical Profile of Hardcore Poor

It is important firstly to understand who and how many are HCP. Depending upon the period and the methodology used in measuring poverty, the estimates of HCP vary widely[8] from 22.7 to 31.6 percent. A more general estimate provided by Marcia, R., Samson (1998) is that the poorest belong to the bottom half of those living below poverty line set in their respective countries. Various estimates for HCP are : (I) Based on the population data of 1995, around 57 million people (including 47.6 percent rural and 46.7 percent urban) are below the absolute poverty. The HCP (direct calorie intake of 1805) were 28 percent while the ultra HCP (direct calorie intake of 1600) were 17.8 percent (McGuire 1998); (2) 49.7 percent urban and 47.1 percent rural population comes under absolute poverty. The HCP are 27.3 percent in urban and 24.6 percent in rural Bangladesh.(BBS, 1998) ; (3) One of the BIDS Report indicates that 22.7 percent of the rural households in Bangladesh belong to the category of HCP (Rahman A, Raazaque A et.al., BIDS, 1998; (4) In a sample survey of 1072 respondents , BRAC found 27 percent members as HCP, 25 percent as moderate poor while the rest 48 percent are non poor (Hussain,1998 p 97); (5) According to Rahman(1998), HCP households as percentage of total population in surveyed villages on average is 31.6 percent while the moderate poor households as percentage of total population in the same villages is 35.9 percent. The total poor households as percentage of total population are 67.6 percent[9] The results are based on a survey of three villages namely Uttar Aushtogharia, Darir Charia kona and Uttar Saluna in Kishoregonj district ; (6) While the moderate poor constitute 29 percent of rural households, the corresponding figures for HCP was 22.7 percent (Sen, 1998).

The discrepancies observed in poverty estimates are mainly due to conceptual and methodological differences. For instance according to Rahman and Haq , 1988 , the poverty situation in the rural Bangladesh deteriorated over the period between mid 1970s and early eighties ie increasing the magnitude (percentage of population

[8] such as : 28 percent (McGuire 1998); 22.7 percent (Sen, 1998); 31.6 percent (Rahman, 1998); 27.8 percent (HKI, 1998) of the total population whereas 22.7 percent (Rahman A, Raazaque A etal., BIDS, 1998) are rural HCP.

[9] Social Programmes of NGOs and the HCP : evidence from the Field Survey p 25, Rahman A et.al, 1998.

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below poverty line) from 55.7 percent in 1973-74 to 61.1 percent in 1976-77; while according to the study conducted by Muqtada, 1986, the magnitude over the same period remains 59.9 percent and 68.2 percent respectively. According to Ravallion (1990), the magnitude of poverty at national level has fluctuated from 52.3 percent in 1983-84 to 49.7 percent in 1991-92 while over the same period it has been 62.6 percent and 47.5 percent respectively as quoted by BBS, 1997. Some studies including BBS (1995); ibid, (2000 b); Hye, (1996); Hossain Mufazzel (1999) indicated similar findings that poverty decreased until mid eighties but later on it remained stagnant or sometimes worsened.

The WB has come out with a disquieting statement that 61 percent of the total urban population in Bangladesh is now (in the beginning of the year 2000) below the poverty line and the trend is likely to continue to rise in the coming years. Out of them, 40 percent are HCP. The capital city of Dhaka has got 55 percent of its population below poverty line while 32 percent of them are HCP[10]

Summing up the review of literature, it is instructive that *MFIs* and HCP require a critical analysis for establishing realistic linkages. To this end regression analysis among various determinants and variables are to be explored. There is need to have a critical look on factors and institutional mechanism of MFIs which directly or indirectly influence their outreach towards HCP. In other words it is required to examine whether MFIs can provide a facilitative role with their existing product and design to bring HCP in the microfinance. Simultaneously, one can also look into and examine other options or alternatives such as safety net programmes intended to reach HCP.

[10] Mahmud Anu (2000), *The role of National development in Poverty alleviation,*

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Chapter III

APPROACHES AND STRATEGIES FOR REDUCING POVERTY : AN OVERVIEW

"Poverty Programmes have put a great deal of emphasis on small scale interventions such as providing schools, clinics or ***microfinance.*** *Sometimes they focus dominantly on such interventions -- overlooking such national issues as economic policy making or building governance institutions. and these interventions are not always successful in reaching the poor."* UNDP Human Poverty Report 2000 P 88.

3.1 Introduction

This chapter provides an understanding of the concept of poverty and its measurement. Based on 1999 survey of Bangladesh Bureau of Statistics, an attempt has been made to analyse variations in regional poverty lines prevailing in the country. Discussing the core issue of reducing poverty, the chapter gives a cursory look on the progress in poverty reduction through various strategies followed in the selected countries of the region particularly in case of Bangladesh.

Besides the government programmes, the programme of the NGOs constitute a large, active and effective sector with significant nation wide coverage. It is also interesting to look into GOs – NGOs collaboration in poverty alleviation to reflect the strengths and weaknesses of their programmes. In particular, the microfinance strategy has been illustrated in terms of methodologies envisaging group lending and individual lending and credit and credit plus approaches. Some emerging issues in microfinance mainly related to outreach, targeting and sustainability aspects are also discussed in this chapter.

3.2 Definition and Measurement of Poverty

3.2.1 Definition

Defining and measuring poverty has been one of moot issues in the studies on poverty. Being a multidimensional concept, poverty is flexible and can not be defined conclusively. The overwhelming focus has been on the issue of absolute versus relative concepts which form the basis of determining poverty line. In absolute or subsistence

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terms, poor are those who are unable to maintain a minimum subsistence level of living (Osmani,1982). In specific terms those who do not have the minimum requirements of food, shelter, fuel, clothing etc. are regarded as poor. In other words , the nutritional requirements of survival and work efficiency (biological considerations) provide basic framework for defining poverty in absolute terms. Earlier studies were concerned predominantly with absolute poverty. For instance, in his pioneering study, Rowntree(1901) defined a family to be poor if its total earnings are insufficient to obtain the minimum necessities for maintenance of merely physical efficiency. This concept of poverty is widespread in developing countries. The WB (1990) also defined poverty in terms of " *Basic needs*" , as the *inability to attain a minimum standard of living.*

The Task Force Report of Bangladesh (1991) defines poverty as " the lack of certain basic capabilities of human beings - the capabilities to live a healthy life free of avoidable morbidity and premature mortality, the capability to live with dignity, with adequate clothing and shelter etc". Hye (1996) defines poverty as the form of economic, social and psychological deprivation occurring among people lacking sufficient ownership, control or access to resources to maintain or provide individual, or collective minimum levels of living ,

Under the relative concept of poverty, the inequality phenomenon entails relative deprivation which is based on norms that attempt to take expressed account of actual deprivation with respect to average level of needs satisfaction in the respective society. However, comparative data requirements make it difficult to estimate poverty in relative terms. The researchers viewing poverty in relative terms include : Townsend (1962); Miller and Roby (1974) ; O'Higgins and Jenkins (1990). The view of relative poverty has the advantage of making reference to prevailing social inequalities.

The definitions of absolute poverty makes it easier to isolate the problem of poverty by diverting attention from the broader debate on most appropriate income distribution. However, there is some justification for taking the relative view in the context of developed nations where, with the increasing material wealth, absolute poverty has lost good deal of its significance. The spectre of hunger and poverty has more or less

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banished from most of these countries {(Shirazi (1993)}. Poverty, in most of these countries is a matter of deviation from social and economic norms. In the developing countries, it is indeed the physical manifestation of poverty that appears to be the most agonising human problem. Then it is absolute poverty which is the main reason behind the current political concern in the developing world .

During the recent years with only 1927 calorie supply per capita , Bangladesh occupies 9th position from the bottom among 38 low income countries (Alam 1993). As per UNDP's Human Development Index of 2000, Bangladesh falls under low human development category at a rank of 147 among more than 168 countries of the world. Since, Bangladesh. being the case in this study, the poverty line will be based on absolute notion of poverty. The officially defined two poverty lines provide basic parameters to explain absolute poor with caloric intake of 2122 kilocalorie and extreme or Hardcore Poor who can afford caloric intake of less than 1805 kilocalorie (BBS, 1998). These are estimated in monetary term based on consumption expenditure on the basic needs of food, clothing and shelter. The present study follows this definition.

3.2.2 Measurement

Setting the poverty line is the first step towards measurement of the poverty. In the present study we limit ourselves for determination of poverty line in absolute terms as discussed and concluded in the previous section. Different approaches and various methods have been used by different researchers for measurement of absolute poverty. Some of the approaches are : (1) The Biological or Subsistence Approach, ie Direct Caloric Intake (DCI); (2) The Basic Need Approach ie Cost of Basic Needs (CBN) and (3) Food Energy Intake (FEI).

Under DCI method the requirements to determine poverty consist of minimum calorie intake which is essential to maintain physical self. In many countries a minimum standard of per capita calorie requirement has been worked out{(ILO 1977, Rao 1982, Lipton 1983)}. However, in economic analysis, the main concern is not measuring calorie intake, to determine the cost and prices of the goods needed to satisfy the desired

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nutritional standard. Consequently, the method will vary according to situations and prevailing norms, values and customs of respective society. Considering the direct caloric requirements, the method may be appropriate for determining malnutrition. It does not provide cushion for non food items which are also essential to figure out precise picture of poverty.

Under CBN method, the poverty line is estimated by first calculating the cost of bundle of goods deemed to assure that basic consumption needs are met. Husain (1999) determined the poverty line expenditure in Bangladesh using CBN method. It takes a normative consumption bundle of food items recommended for the average population of Bangladesh that gives a per capita intake of 2,112 kilocalories and 58 grams of protien needed to maintain a healthy productive life. The *upper poverty line* is estimated at Tk 6,896 per person per annum and the *lower poverty line* expenditure is estimated at 76.7 percent of the upper poverty line which comes to Tk 5,289.

The limitations in these measures are that they do not take into consideration the dimensions of welfare factors such as health, shelter, sanitation, life expectancy, literacy, access to public services and goods, emergency asset base or access to common property resources. Some households may have better access to education, health services, drinking water, electricity and so on, making them better-off than other households in the same income group. These differences are not reflected in the income or consumption statistics particularly in case of Bangladesh where the choice and taste of food vary from coastal areas to hinterland and cities of the country.

Under **FEI** method, the required calories are converted into monetary terms. It includes food as well as non food requirements. It is comprehensive and flexible. It has the merit of taking into account the regional locational variation with regard to taste and choice of food items. Under this method, the expected body weight for existing height is multiplied by energy required per Kg of body weight[1]. The UN agencies such as FAO and WHO support this method.

[1] University Press Limited (1990), *Rural Poverty in Bangladesh : A report of Like Minded Group*, P50

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The most common method to estimate poverty is the head count ratio (H) which is defined as *the proportion of the total population which is identified as the poor* i.e. the proportion falling below the poverty line expenditure (or income).

$$H = \frac{q}{n}$$

where : q = population below the poverty line and
n = total number of population

However, the critical aspect (Sen, 1981) of headcount ratio is that it does not count the progress of a poor who increased his income but still it is not enough to cross the poverty line. Despite of this progress he is still counted as poor under the head count ratio. Therefore a better measure of poverty is the *poverty gap (PG) which is measured by aggregate poverty deficit of the poor relative to the poverty line.* It provides an indication of the depth of the poverty i.e. the distance of the poor below the poverty line. Symbolically:

$$PG = \frac{1}{n} \sum_{I=1}^{q} \left[\frac{z - yi}{z} \right]$$

This index indicates the percentage shortfall of the average income of the poor from the poverty line which can be called as income gap ratio (I).

$$PG = I * H \quad \text{where :} \quad I = \frac{z-yp}{z}$$

any yp denotes the mean consumption of the poor

This method is further criticized for being completely insensitive to transfers of income among the poor. Besides, it provides aggregate short fall and pays no attention to the proportion of people's concentrated below the poverty line. A measure of the severity of poverty taking into consideration the "additivity" is Foster-Greer-

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Thorebecke (FGT) measure whereby the poverty gaps of the poor are weighted by those poverty gaps in assessing aggregate poverty.

$$PG = \frac{1}{n} \sum_{i=1}^{q} \left[\frac{z-yi}{z} \right]^{\alpha}$$

A serious limitation of poverty measurement using HES[2] data relates to its focus on uni-dimensional nature which overlooks many other important factors in the complex process of poverty. The effective poverty measurement calls for comprehensive coverage of poverty syndrome incorporating all major aspects of its 'state' and 'process' dimensions. This requires a multi-dimensional approach to poverty including both qualitative and quantitative indicators at individual, household and community levels.

Symbolically, the statistical formulation of the functional relationship (CIRDAP, 1999, p41) can be expressed as :

$$y = a + bx + e$$

Where : y = per capita expenditure (food and non food)
x = daily per capita calorie intake
e = disturbance

The approach used in this study includes both food and non food needs for determining the poverty line. The study takes into consideration the relationship between calorie intake and total consumption expenditures for arriving at absolute poverty line. The FEI method considers the functional relation between monthly per capita expenditure and per capita per day calorie intake (2112 k cal) requirement.

Keeping in view merits of FEI method and limitations of other methods, the present study follows FEI method. A series of CIRDAP-BBS Poverty Monitoring Surveys are based on this method. In the current study the focus of analysis would be the household as well as the population. The results are derived from Poverty Monitoring Survey 1999 conducted by Bangladesh Bureau of Statistics (BBS) which is the latest data available at the time of this study. The study has produced poverty

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measures separately for urban and rural areas by disaggregating at the level of 21 regions (greater districts) of the country. The previous four similar surveys (1995 to 1999) used a relatively small sample which provided poverty statistics with urban and rural breakdown at national level aggregation only. The poverty lines of various regions of Bangladesh can be derived from 1999 survey. These serve a vital input for analytical frame work applied in this study.

3.3 An overview of Poverty Scenario

3.3.1 The Regional Perspective

The poverty alleviation efforts started in 1960s, envisaged top down approach. The results of the initiatives, particularly on the redistribution of income, by and large remained unsuccessful. Poor continued to be poor and the gap between rich and poor increased substantially. Under this situation, more specific and targeted programmes were started in late seventies placing emphasis on structural shift. During the same decade, it was realised that poverty was growing rapidly despite economic growth. According to UN Department of Public Information (2000), the only region that has seen a real decline in poverty is East Asia and the Pacific, where the number of people living on $ 1, a day or less fell from 418 million in 1987 to 278 million people in 1998, a 15 percent drop.

Many countries designed special poverty alleviation progarmmes[3]. The perception of the players that made these programmes effective has changed over time and the *emphasis ranged from employment generation to human capital creation and community participation.* The experience of various strategies and programmes implemented by many Asian countries in reducing poverty converge into two approaches : (1) productive use of labour[4] and (2) providing basic social services to the poor. Overcoming human poverty through access to microfinance has become a

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[2] Household Expenditure Surveys (HES) are usually carried out by the Bureau of Statistics on periodical basis.

[3] Mahboobul Haq Centre for Human Development, (1999b); *Human Development in South Asia (1999) : The crisis of Governance,* Oxford University Press .

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common strategy to achieving economic empowerment of the poor, particularly women

The experience shows that the countries which followed and implemented proper mix of these strategies in a sustained manner have gained substantial return in terms of reducing poverty. The examples of such countries are Indonesia and Malaysia as born out by the following data (**Table 3.1**).

Table 3.1 Trends in incidence of Poverty in Selected Countries

Country	Period	Head count index (percent)		Number of poor (million)		Average Change per Annum
		First year	Last year	First year	Last year	(percent)
Bangladesh	**1974 – 1992**	**83**	**48**	**63.0**	**51.0**	**1.9**
India	1978 – 1994	51	36	329.0	320.0	0.94
Indonesia	1970 – 1993	58	14	67.9	25.9	1.91
Malaysia	1973 – 1995	45	9	5.1	1.8	1.82
Nepal	1977 – 1989	40	40	5.3	7.4	0
Pakistan	1979 – 1993	31	22	24.7	27.1	0.64
Philippines	1971 – 1994	52	41	19.6	27.1	0.48
Sri Lanka	1963 – 1991	37	22	3.9	3.8	0.54
Thailand	1975 – 1992	30	13	12.4	7.5	1.00

Source: ESCAP Economic and Social Survey of Asia and the Pacific 1998/ Rural Development Report 1999, CIRDAP, T88)

According to another data set analysis (McGuire, 1998), in the 30 years (1966 to 1996), the incidence of poverty in Indonesia declined from close to 70 percent to just over 11 percent which is 1.97 percent average decrease per annum. Similarly, in Malaysia, the incidence of poverty has fallen from 42percent of households in 1976 to 10 percent of households in 1995. In both of these countries rapid economic growth

[4] *Microfinance* helps in the productive use of labour mainly by creating self employment and creating income generating opportunities in the informal sector. (WB 1990).

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has increased the labour demand providing opportunities for the poor. Their major focus was on human resource development. Besides, targeted policies were also adopted in these countries with the objective of improving productivity of the poor through infrastructure development and income generating projects. Unfortunately, both these countries have recently experienced financial crisis and consequently, the short term outlook is not favourable.

Thailand provides an example for being successful in improving employment opportunities for the poor with comparatively higher economic growth as compared to Indonesia and Malaysia. There has been less emphasis on the targeted programmes for improving productivity of the poor and providing basic social services. In Thailand, the incidence of poverty fell from 30 percent in 1975 to 13 percent in 1992 as given in **Table 3.1** . However, the benefits of growth have not been spread evenly and inequality increased. Until mid 1990s, Thailand had high rate of economic growth well over 7 percent a year between 1977-1996. Share of the poor dropped from 30 percent in 1974-75 to 11 percent in 1996. But in the wake of financial crisis, the share jumped up to 13 percent in 1998[5].

The incidence of rural poverty in South Asian countries is much higher than in most Southeast Asian countries. Bangladesh has shown comparatively better percentage of annual average decrease in poverty from early seventies to early nineties. In Nepal, government follows two-pronged strategy for poverty reduction : firstly it fosters broad based growth to benefit the moderately poor (about 60 percent of all poor) and secondly, combines targeted programmes with social mobilisation to reach the HCP[6]. However, the progress in reducing poverty in Nepal has not been impressive. Sri Lanka provides an example of impressive performance in terms of human resource development by extending basic social services to the poor. It has thus achieved significant progress in poverty reduction. However, it has been less successful in

[5] UNDP Poverty Report 2000, *Overcoming Human Poverty*, UNDP New York

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creating employment opportunities and IGAs. The other countries namely India, Pakistan and Philippines have all achieved some reduction in the incidence of poverty.

The commonly used $1 a day standard , measured in 1985 international prices and adjusted to local currency also provides some basis of comparison. As it may be seen in the selected parameters (Table 3.2) of South Asian countries, Bangladesh has 29.1 percent of population below the income poverty line ($ 1 a day) over a period of 10 years which is lower than Nepal , India and Pakistan.

Table 3.2 Some selected Indicators in selected South Asian Countries

Country	National Poverty Line (1987-97)	Population below income poverty line percent US$ 1 a Day (1993 ppUS$) 1989-98	Share of income or consumption Poorest 20 percent (1987-98)
Bangladesh	35.6	29.1	8.7
India	35.0	44.2	8.1
Nepal	42.0	37.7	7.6
Pakistan	34.0	31.0	9.5
Sri Lanka	35.3	6.6	8.0

Source: HDR, 2000, United Nations Development Programme, New York

The incidence of poverty remains still high ranging from 34 percent in Pakistan to 42 percent in Nepal. These countries have not been successful in reducing poverty compared to Southeast Asian countries, despite implementing policies to promote employment opportunities and IGAs for the poor and to extend basic social services.

Since the methods differ for determining national poverty line in different countries does't lend to appropriate indicator for comparison. However, general conclusion about regional income poverty trends is possible. As it may be seen in **Box** 3.1, the number of poor people in South Asia has risen except in Sri Lanka. While the proportion of the

Box 3.1

Estimated Poor Population in South Asia

	Mid 1980s (million)	Mid 1990s (million)	Annual Change
Bangladesh	**49.0**	**54.1**	**0.8**
India	277.4	353.3	1.9
Nepal	7.0	9.8	3.1
Pakistan	28.9	31.8	1.4
Sri Lanka	4.5	4.0	- 2.4

Source : BIDS (1999), quoted in UNDP-Poverty Report 2000, Overcoming Human Poverty p 109

[6] UNDP Overcoming Human Poverty, 2000

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poor has been declining over the past 15 years, the pace of decline has been painfully slow and the trend has been erratic with poverty increasing in some periods even when the economy is growing with the exception of Sri Lanka.

South Asia Poverty Monitor (BIDS, 1999)[7] *identifies " the faulty governance as a major reason due to which the poverty alleviation programmes have not been more successful in South Asia. Too often such programmes have been poorly managed, with beneficiaries never receiving funds intended for them or being allowed to participate fully. The key to success for the South Asia Poverty Alleviation Programme is the poor organising to take more charge and control of their own*[8].

The above analysis indicate that rapid and sustainable reduction in poverty depends on a wide range of policy measures. The provision of microfinance is neither a necessity nor a significant condition for rapid poverty reduction. The instance of large reduction in poverty with little emphasis on microfinance may be seen in Malaysia and Thailand. Despite the vast outreach of microfinance in Bangladesh, progress in reducing poverty has been slow. It is obvious that microfinance is just one factor in any strategy for poverty reduction .

3.3 Poverty Scenario in Bangladesh

Poverty prevails intensively in both absolute and relative terms across Bangladesh. The Human development Report of South Asia, mentions " Bangladesh Household Expenditure Survey data shows that by 1991, poverty incidence both in rural as well as in urban areas had risen compared to 1985. Though poverty rates have since improved, they were still higher in 1995 than those a decade earlier

Box 3.2

Rural and Urban Poverty in Bangladesh
(By Basic Needs Methods)

Year	Head Count Measure of Poverty		
	National	Rural	Urban
1973-74	70.5	71.3	63.2
1981-82	63.5	65.3	48.4
1985-86	43.9	45.9	30.8
1988-89	47.8	49.7	35.9
1991-92	49.7	52.9	33.6
1995-96	47.0	51.1	26.3

Source : Human Development in South Asia 1999 p13

[7] A report of South Asia Poverty Alleviation Programme uses its own human poverty index which are used extensively for analysis.

[8] UNDP-UNOPS (1996) : *South Asia Poverty Alleviation Programme : Social Mobilisation through Institutional development at Grassroots – Bangladesh Annual Report 1996* , UNDP, Dhaka

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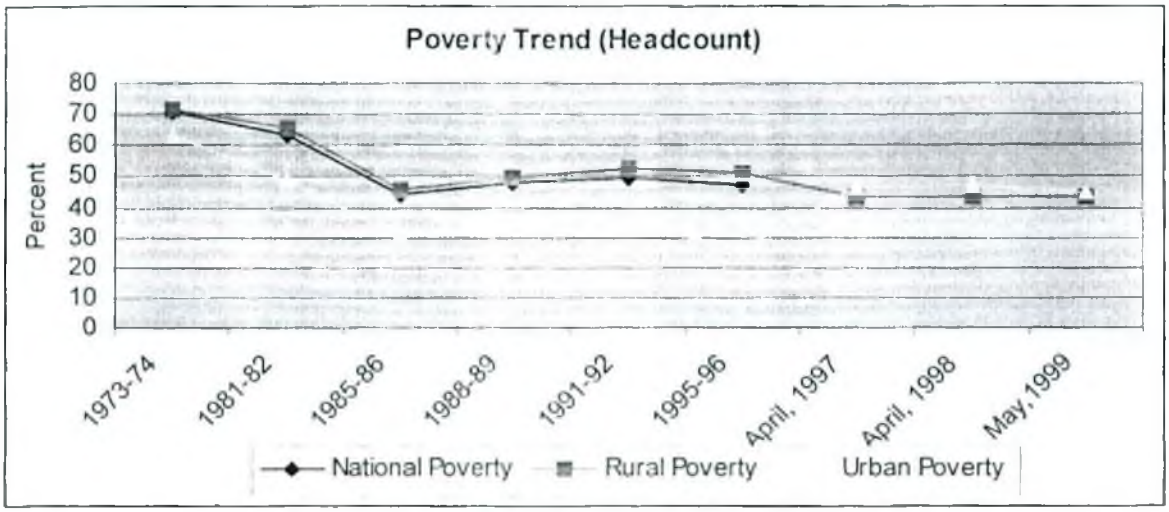
(see box 3.2). The absolute number of poor rose by 1.2 per cent annually during this period - faster than any historically observed rate. The depth and severity of poverty also increased, demonstrating the worsening condition of the poor.".

The overall poverty trend since early seventies to late nineties is shown in graph 3.1

Graph 3.1



Data Sources : HDR South Asia 1999 p13 ; CIRDAP-BBS Poverty Monitoring Surveys : 1997 to 1999

Discrepancies are found among the studies on poverty measurement even undertaken in the same year when researchers were different as it may be seen in table: 3.3

Table 3.3 **Percentage of Population Below Poverty Line**
(Head Count Ratio percent)

		1973-74	1976-77	1977-78	1978-79	1981-82	1983-84	1985-86	1988-89	1991-92	1994	1995
Alamgir (1978)	R	84.0	---	---	---	---	---	---	---	---	---	---
	U	76.0	---	---	---	---	---	---	---	---	---	---
Muqtada (1986)	R	59.9	68.2	---	68.7	---	---	---	---	---	---	---
	U	37.8	40.3	---	---	---	---	---	---	---	---	---
Islam and Khan (1986)	R	47.7	62.3	---	---	---	---	---	---	---	---	---
	U	32.3	37.4	---	---	---	---	---	---	---	---	---
Osmani and Rahman (1986)	R	65.3	---	---	---	79.1	49.8	47.1	---	---	---	---
	U	62.0	---	---	---	50.7	39.5	29.1	---	---	---	---
Rahman and Haq (1988)	R	55.7	61.1	67.9	---		---	---	---	---	---	---
	U				---	48.4	---	---	---	---	---	---

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Ravallion (1990)	R	---	---	---	---	---	53.8	45.9	49.7	52.9	---	---
	U	---	---	---	---	---	40.9	30.8	35.9	33.3	---	---
	N	---	---	---	---	---	52.3	43.9	47.8	49.7	---	---
BBS (1991-92,1995, 1997)	R	---	---	---	---	73.8	61.9	54.7	47.8	47.6	43.5	47.6
	U	---	---	---	---	66.0	67.7	62.6	47.6	46.7	---	42.2
	N	---	---	---	---	---	62.6	55.7	47.8	47.5	---	45.1

--- Not available R: Rural U: Urban N: National Source: Chowdhury and Shahabuddin, 1992, BBS (various years) quoted in CIRDAP 1997 P 33

As it may be seen in **Table 3.4,** the head count measure of poverty for urban as well as rural Bangladesh has declined between the two points ie 1973-74 and 1991-92 According to Hussain, M and Benayak, S (1992), rural poverty gap and squared poverty gap measure in 1973-74 were 25.6 and 11.8 percent respectively. The matched figures for 1991-92, as estimated by Ravallion and Sen (1996) were much lower, 14.6 and 5.6 percent respectively.

Table 3.4 : Summary of Statistics of Poverty in Bangladesh

Year	Poverty Line Tk/person/month	Mean Consumption Tk/person/month	Mean Poverty Line (percent)	Head-count measure of poverty (percent)[a]	Head-count measure of poverty (percent)b
Urban					
1973-74	97.8	98.9	101	52.0	63.2
1976-77	121.1	109.0	84	67.7	na
1977-78	147.7	138.5	94	68.4	na
1978-79	167.2	184.3	110	54.9	na
1981-82	239.6	313.1	131	45.5	48.4
1983-84	301.7	396.5	131	37.1	40.9
1985-86	368.6	581.1	158	26.4	30.8
1988-89	453.7	695.2	153	37.4	35.9
1991-92	535.0	817.1	153	na	33.6
Rural					
1973-74	95.8	84.7	88	60.3	71.3
1976-77	136.1	88.0	65	78.9	na
1977-78	157.8	106.5	68	77.4	na
1978-79	172.0	134.4	78	65.8	na
1981-82	185.6	173.9	94	55.3	65.3
1983-84	268.9	284.8	106	46.3	53.8
1985-86	319.1	373.9	117	37.3	45.9
1988-89	379.1	435.4	115	43.4	49.7
1991-92	469.1	509.7	109	na	52.9

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"a" Based on distribution data ranked by "per household" expenditure (source : Hossain and Sen 1992, Sen and Islam 1994) "b" Based on distribution data ranked by "per capita" expenditure (Source : Ravallion and Sen, 1996), The estimates for 1981-82 is from Hossain and Sen 1992. Quoted in Sen B ch5, Centre for Policy Dialogue, 1997 p 118

Box 3.3

Correlations between mean consumption and poverty line (Urban : 1973-74- 1991-92)

		MEAN_CON	MEAN_PL
Pearson Correlation	MEAN_CON	1.000	.927
	MEAN_PL	.927	1.000
Sig. (2-tailed)	MEAN_CON		.000
	MEAN_PL	.000	
N	MEAN_CON	9	9
	MEAN_PL	9	9

** Correlation is significant at the 0.01 level (2-tailed).

The correlation between mean consumption (urban) and corresponding urban poverty lines **(Box 3.3)** is highly significant[9] over the period of 1973-74 to 1991-92.

Similarly, in case of rural poverty , the correlation is even more significant over the same period as given in box 3.4. It indicates that the gap varies considerably among the poverty lines and the respective monthly expenditure. The gap is more in case of urban indicating that there has been substantial increase in urban poverty since early eighties.

Box 3.4

Correlations between mean consumption and poverty line (Rural : 1973-74- 1991-92)

		MEAN_RCO	MEAN_RPL
Pearson Correlation	MEAN_RCO	1.000	.865
	MEAN_RPL	.865	1.000
Sig. (2-tailed)	MEAN_RCO		.003
	MEAN_RPL	.003	
N	MEAN_RCO	9	9
	MEAN_RPL	9	9

** Correlation is significant at the 0.01 level (2-tailed).

BBS data also confirms that since the mid 1980s, the rate of reduction in poverty has slowed down. It reveals from the **Table 3.4** that consumption measure for rural poverty has decreased a total of about 6 percentage points during eight years period 1973-74 to 1981-82 in contrast to the only 1 percent decline during subsequent eight years period starting from 1983-84 . Most of the decrease in poverty is seen during the decade preceding 1983-84. The alternative measures of poverty e.g. the **head count** index (P0, which measures the incidence of poverty), **poverty gap** index (PI, taken to measure the depth of the poverty), and **squared poverty gap** index (P2, which measures the severity of poverty) as determined by different authors are given in **Table 3.5**

[9] coefficient of correlation , r = 0.93
and significance level , α = .000) at 2 percent error

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Table 3.5 FGT Measures of Poverty

FGT Measures	Source	1973-74		1981-82		1983-84		1985-86		1988-89		1991-92	
		R	U	R	U	R	U	R	U	R	U	R	U
Head count Index, P (0)	Ravallion (1990)	---	---	72.7	62.3	42.3	54.6	34.8	43.7	---	---	---	---
	BIDS (1992)	71.3	---	65.3	---	50.0	---	41.3	---	43.8	---	---	---
	Sen(1993)	63.2	---	48.4	---	42.6	---	30.6	---	33.4	---	---	---
	Ravallion & Sen (1994)	---	---	---	---	53.8	40.9	45.9	30.8	49.7	35.9	52.9	33.6
	BBS (1991/92)	---	---	---	---	---	---	---	---	---	---	47.6	46.7
FGT Poverty Gap, P (1)	Ravillion (1990)	---	---	24.5	22.2	10.7	17.5	7.2	12.3	---	---	---	---
	BIDS (1992)	25.6	---	20.2	---	13.2	---	9.2	---	10.8	---	---	---
	Sen (1993)	---	21.1	---	14.9	---	12.1	---	7.3	---	7.7	---	---
	Ravallion & Sen (1994)	---	---	---	---	15.0	11.4	10.9	7.3	13.1	8.7	14.6	8.4
	BBS (1991/92)	---	---	---	---	---	---	---	---	---	---	25.4	25.8
Distributionally Sensitive Measures, P (2)	Ravillion (1990)	---	---	10.6	10.3	4.0	7.5	2.2	4.7	---	---	---	---
	BIDS (1992)	11.8	---	8.1	---	4.9	---	2.9	---	3.7	---	---	---
	Sen (1993)	---	9.5	---	6.2	---	4.7	---	2.4	---	2.4	---	---
	Ravallion & Sen (1994)	---	---	---	---	5.9	4.4	3.6	2.5	4.8	2.8	5.6	2.8
	BBS (1991/92)	---	---	---	---	---	---	---	---	---	---	23.3	21.3

R: Rural U: Urban

Source : Sen and Islam, 1993, Hussain and Sen, 1992, Ravillion and Sen, 1994 quoted in CIRDAP, 1997 p 34

These measures also suggest a rise in poverty situation during early 1980s. The increase in poverty in terms of distribution sensitive measures (e.g. P1 and P2) also suggests downwards trends in the living standards for the poorest of the poor. The correlation of urban and rural estimates of poverty lines of 21 regions (using 1999 data) is significant at 0.05 level (r = .48 and α = .03 ref : **Box 3.5**)

Box : 3.5

Correlations Analysis of 21 regions

		U_POV	R_POV
Pearson Correlation	U_POV	1.000	.476
	R_POV	.476	1.000
Sig. (2-tailed)	U_POV		.029
	R_POV	.029	
N	U_POV	21	21
	R_POV	21	21

Correlation is significant at the 0.05 level (2-tailed).

Analysis by the Author (Data source CIRDAP-BBS Poverty Monitoring Survey 1999. Data is given in table

The incidence of poverty has negative correlation with the human development indicators including level of education. According to 1998 Poverty Monitoring Survey, 78 percent of the households in 'never read' category are poor in urban areas compared to 13 percent having SSC or higher education. The corresponding percentage for rural areas are 54 percent and 14 percent respectively[10] The incidence of poverty of the rural households with occupations in trade and business

as against 5 percent permissible

[10] Ministry of Finance, Economic Relatiuons Division, 2000 p56

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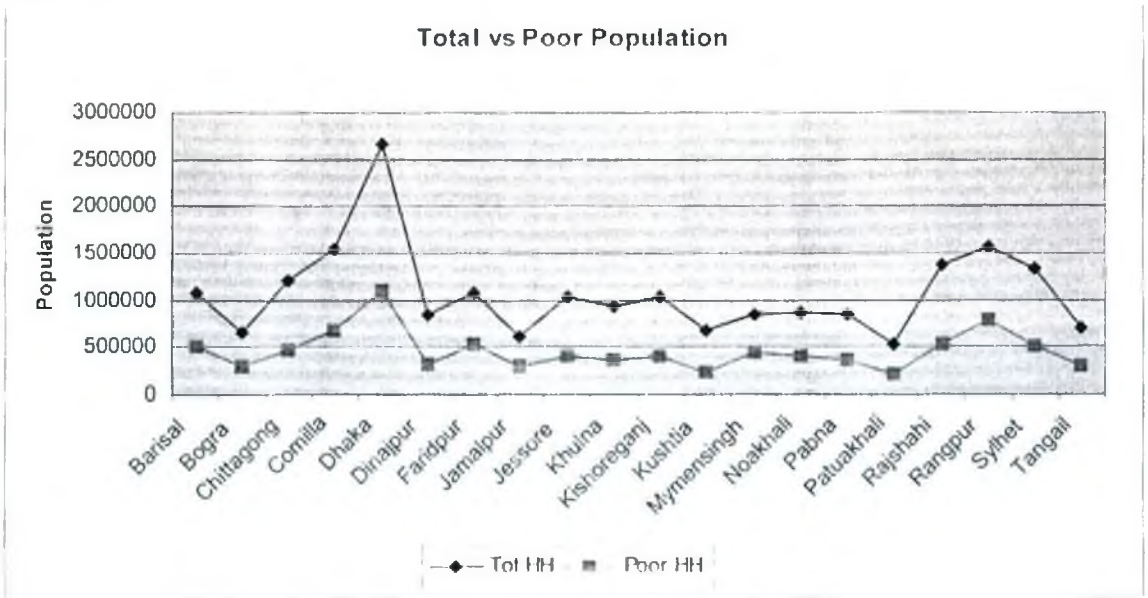
is 42 percent. Relatively better performance in non-farm sectors indicated that the promotion of non farm activities is a viable option for rural poor.

Based on calorie intake method used by BBS, over a decade, the number of hardcore poor decreased from 52 million (43 percent of population) to 28 million (27 percent) in the rural Bangladesh from the year 1981-82 to 1991-92.

According to BBS 1999 survey, the poverty line estimates vary from as low as Tk 477.0 for Rangpur to Tk 704 in case of rural areas and Tk 625.0 for Rajshahi to Tk 1045.3 in case of urban areas. (BBS, 2000 b). Variations in different regions of the country with respect to the total households vs number of poor households are shown in **Graph 3.2.**

Graph 3.2



Analysis of 1999 data further shows that : (I) Percentage of poor households compared to total households vary from as low as 34.46 percent in Kushtia region followed by Sylhet (38.26 percent); (ii) Rural poverty is lower than urban poverty in terms of threshold amount required to cross the poverty line. In case of Dinajpur and

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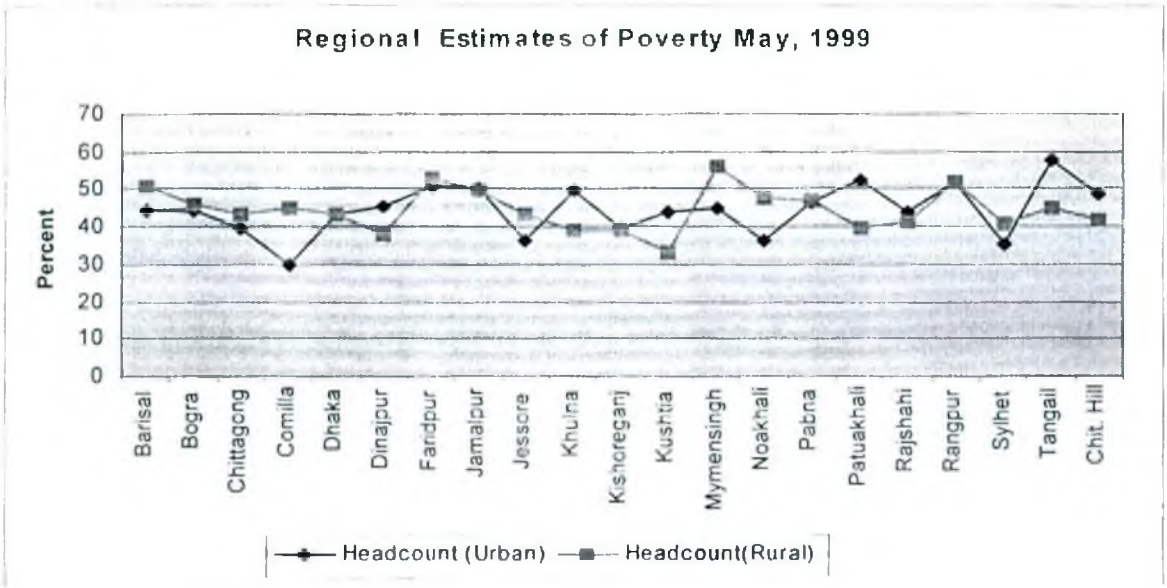
Rajshahi the rural poverty as lower as Tk 496.4 and Tk 477.7 per month respectively as it may be seen in the Graph 3.3.

Graph 3.3



3.4 Policies and Strategies for reducing Poverty in Bangladesh

3.4.1 Government Policies and Strategies

The policy framework of the GOB related to poverty alleviation envisages three- pronged strategy : (1) fostering higher economic growth supplemented by measures to benefit the poor from the growth process; (2) directing higher investments in the social sectors to promote human resource development and (3) promoting targeted income and employment generation programmes for the vulnerable poor and disadvantaged groups[11]. The first strategy envisages acceleration of growth in both the farm and non-farm sectors. On one hand appropriate technological and other innovations can play significant roles in the farm sector. There also exists tremendous potential for expansion of non-farm activities in the rural area. With the exception of garment industry, the urban industries have not provided significant growth linkages. There is a need to promote and encourage garment industry in the rural areas with required infrastructure facilities.

[11] CIRDAP, 1997 p 54

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The second strategy of directing higher investments in the social sector, brings into focus the human resource development as a sustainable development strategy in poverty reduction. Particularly, the higher investments in social sectors like health and education can contribute towards reducing poverty as these are also important to the poor in raising their productivity and improving living conditions. The *target approach for HCP is the nucleus of the third strategy* With the combined efforts and initiatives of the Government and NGOs, the strategy can contribute effectively towards 'Safety nets' to the poor in the short run and human resource development as the long run objective.

Despite the shift in emphasis, the policies of the recent times mention very little about land distribution, lowering of ceiling, tenure improvement and local level planning as strategies for reducing poverty and generating employment in the rural areas. The production and employment programme for the rural poor has been conceived as a package, consisting of (i) peoples institutions (cooperatives and informal groups of poor men and women), (ii) training and technologies, (iii) credit, (iv) other inputs such as marketing.

The policies, strategies and programmes of the country are laid down in the Five Year Plans (FYPs). The first FYP (1973-78) placed special emphasis on poverty alleviation, whereas the Second FYP (1980-85) and the third (1985-90) Plan aimed at employment creation (Hossain, 1999). Subsequently, the GOB adopted a policy of giving poverty alleviation more emphasis in its fourth plan (1990-95). The 4th FYP (1990-95), was formulated as part of *Perspective Plan for 1990-2010 which includes poverty reduction as objective (end) as well as a strategy (means)*. Under this plan, the poverty alleviation programmes received about 17 percent of the total allocation as compared to 13 percent in 3rd FYP and 14.3 percent in 2nd FYP. By identifying *" The Poor" as a distinct social group, the government approach to planning in the 4th FYP shifted from traditional sector planning which bypasses the target group, to group based planning*. The recommended strategies 4th FYP (1990-95) included : (1) the

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integration of group based approach with sector based approach; (2) community involvement; and (3) participatory planning.

The Fifth Five Year Plan (1997-2002) envisages an active coalition of the government and the NGOs on the development front so that NGOs can be tapped in a cost effective manner. Alleviation of poverty through accelerated economic growth (on average 7 percent) is one among the development goals of 5th FYP .About microcredit, the 5th FYP particularly mentions (p55) , " Empowerment of the poor is contingent on their access to resources, which in turn, enhances the productive capacity of the poor and helps alleviate poverty. This is the vision on which GB launched its innovative microcredit banking system to reach the poor who have nothing to offer as collateral for borrowing from conventional banking system. The success of the GB has created optimism about the viability and vitality of the innovative approach of reaching the poor with credit they desperately need. NGOs like BRAC, Proshika, ASA and others also reach the poor with microcredit. The delivery of microfinance is also assisted by appropriate training and monitoring of formation of associations, arrangements for supply of inputs and provision of market outlets for the sale of products produced by the small entrepreneurs. "

Within the above framework, specific Poverty Alleviation Programmes (PAPs) have been designed and implemented by different institutions. Two major mechanisms that underlie their operations may be identified as : (i) addressing the basic needs of the poor directly through delivery of services; and (ii) improving the capabilities of the poor in meeting such needs. In either case, an essential pre-requisite of success is that these programmes should be designed and implemented such that (a) they meet the needs of the poor, and (b) the benefits reach the intended poor through an effective delivery mechanism. In order to ensure that there is no leakage, the consideration of the receiving mechanism of the poor is also important which guarantees that the poor are organised and able to derive the benefits.

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3.4.2 GO - NGOs Collaboration

The institutional framework for poverty alleviation in Bangladesh can be categorised into : (1) public initiatives (undertaken by GOB, through different Ministries , Divisions and other agencies[12] and (2) private initiatives (taken by groups, NGOs). More than one thousand NGOs are at present working in Bangladesh for alleviation of poverty. Yearly budget of these NGOs are around Tk 4000 crores (40 billion) [13]. The leading NGOs are BRAC, ASA, Proshika, CARITAS, CARE. GB is also working in the field of poverty alleviation supported by the GOB and other resources. BRDB is the largest public sector organisation involved in poverty alleviation. which is implementing a number of projects and programmes using different approaches and strategies under Rural Poor Programme (RPP)

The Targeted Approach associated with targeted development has been prominent with increasing and wider involvement of government. Examples of some selected public sector programmes with their distinct approaches are listed in table 3.6 :

Table 3.6 : Public Sector Programmes

Approach	Programme
⇨ Establishment of Safety nets for the poor with the use of food aid	• Food for Work • Vulnerable Group Development • Test Relief
⇨ Creation of Rural Infrastructure	• LGED Programme
⇨ Rural Development Programme by BRDB	• RD -5, RD-9, RD-12
⇨ Financing NGO's Microcredit Programme	• PKSF • Different Ministries (Youth, Women, Social Welfare)

[12] At present a number of Ministries and Divisions such as (a) Rural Development and Cooperatives Division (b) Ministry of Youth and Sports (c) Ministry of Women and Children Affairs (d) Ministry of social Welfare (e) Ministry of Disaster Management and Relief etc are directly involved in poverty alleviation. Similarly , a number of Ministries and Divisions such as (a) Ministry of Agriculture (b) Ministry of Industry (c) Ministry of Health and Family Welfare (d) Ministry of Environment and Forest (e) Ministry of Fishries and Livestock (f) Ministry of Water Resources (g) Ministry of Land (h) Local government Division etc are also indirectly involved in the poverty alleviation programmes of the Govedrnment.

[13] CIRDAP (2000), " Government – NGO Cooperation for Poverty Alleviation"

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From the initial phase of mutual distrust and misgivings, both the government and NGOs have come a long way in realising their complementing role in strengthening grass- root poverty alleviation initiatives. While effective involvement of NGOs in areas where they have comparative strengths and support capacity enhancement in the area where they appear to be weak should form the basis for government-NGO collaboration, it is also important to realise certain limitations of the NGOs. The NGOs outreach is often regarded as limited and fragmented which *largely excludes the HCP groups* (WB, 1996). Some of these limitations are the outcome of weak institutional capacity while others are conditioned by low replicability potential. The following **Table 3.7** provides a comparative analysis of the strengths and weaknesses of government and NGOs programmes.

Table 3.7 : Strengths and Weaknesses of Government and NGOs Programmes in Poverty Alleviation

	Government Programmes	NGOs Programmes
Strengths	• **Wide coverage is possible if resources allow** • **Institutinal Mechanism provides clarity of roles and procedures** • Direct access and support from Public Resources/other related agencies and departments • Legal framework of Transparency and accountability is followed • Long term sustainability of the system itself	• Grassroots linkages and commitment of field staff to know and solve problems • Non hierarchical culture in their organogramme. Suggestions welcome from their field staff and decisions are taken at field level • More concentration due to limited activities and area specific approach • Indigenous coping mechanism of the community problems with better perceptions
Weaknesses	• Inflexible due to centralised Planning • No or minimum involvement of grassroots/target beneficiaries • Poverty alleviation conceived as trickle down effect of the programme • Poor are considered as unified community • Plans are made in towns, participatory methods are not encouraged or facilitated	• Flexibility creates scope of suppressing transparency and avoiding accountability • Projects limited to particular circumstances which could not be generalised • Government suspicion on their activities. • Adhoc, piecemeal and unplanned approach with frequent change in policy

Source: Various Studies

During the last quarter of the century, a number of programmes and projects have been implemented by various governmental and Non Governmental organisations to reduce the incidence of poverty. These programmes can be categorised (Alam 1993)

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into two groups : (1) growth oriented programmes and (2) targeted oriented programmes and the interventions can be categorised broadly (Ahmed, A 1999a) into : (1) transfer mode and (2) the credit mode. A variety of approaches and programmes have been undertaken both by Government and NGOs to promote direct interventions for reducing poverty within a targeted approach.

The policy environment in Bangladesh has been largely conducive to the growth and functioning of MFIs. The relationship between Government and NGOs has witnessed three phases over a period of about 30 years. During the **first phase** (may be termed as *ignorance phase*), Government and NGOs ignored each other. After rehabilitation period in 1970s, Government was skeptical about the role of NGOs and wondered why they were spending huge amounts on health, education and poverty alleviation programmes. Therefore, during the **second phase** (may be called as *recognition phase*) from 1974 to the late 1980s, there was a kind of mutual rivalry and recognition of each other. During the **third phase** (also called *partners in development*) which started in the early 1990s, Government and NGOs realised that both needed each other. Government did not consider NGOs as contractors rather as partners.

In the beginning , the NGOs which intend to implement donor funded projects were required to submit (for clearance) their projects to the Economic Relations Division (ERD) of the Ministry of Finance. Later based on experience, it was strongly felt that donors were discouraged due to substantial delay taken by ERD. Therefore, NGO Affairs Bureau (NAB) was created under the Prime Minister's Office. NAB is headed by a Director General with 3 Directors, 13 officers and 30 supporting staff. The Bureau has no field office. It is mandatory to get a decision within 90 days for registration and 45 days for approval of project proposals. Fifty days is the lead time for clearance of expatriate working with NGOs financed by donors. At present about 400 expatriates are working with NGOs.

A major element of GO and NGO interventions is the need for new approaches and development initiatives and the ability of NGOs to provide alternative models derived from the mix of local culture and tradition with new technology and management skills. With the gradual change of emphasis from community welfare to

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integrated development of the poor , NGOs can play an important role in complementing the Government efforts through developing appropriate institutions. (Planning Commission 1995). The Government emphasis on the need for extensive programmes for organising the people at the grassroots level has further expanded the scope for the partnership role of NGOs.

In order to enhance GO-NGO collaboration and coordination, a twenty three member GNCC (Government NGO Consultative Council) was set up headed by the Prime Minister. The Council include 14 members from NGOs/Civic Society Organizations and 8 from development ministries at the rank of Joint Secretaries.

During the field visits[14] of selected MFIs, programmes, it has been observed that sharing of experiences among the MFIs as well as within the MFI is seriously lacking. Even the positive outcome of successful projects are not properly disseminated or replicated in other projects. Again at present there is growing concern about the sustainability of both GOB and NGOs projects and programmes.

3.5 Microfinance Strategy for Reducing Poverty

Money begets money. Adam Smith in his ' **Wealth of Nations** ' said that, " *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 door steps of the poor at the right time to help them facilitate and start feasible intended IGAs. It is with this background that , *microfinance is seen as one of the significant approaches to poverty alleviation.* Microcredit is also seen as a legitimate economic tool in the fight against poverty.

UNDP has been supporting many of the new microfinance initiatives and also expanding its operations globally. In 1997, it established a Special Unit for Microfinance and launched its " *Microstart Programme*" with the financial support of

[14] The author has conducted a number of field visits of MFIs in various parts of the country.

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the United Nations Capital Development Fund (UNCDF). The major aim of setting up Microfinance Unit is to provide technical and funding support to country efforts in initiating and maintaining viable microfinance institutions that can help facilitate the poor, especially the disadvantaged women. Microstart provides assistance in setting up MFIs in the developing countries[15] The outreach of UNCDF financed microfinance programmes now extends to twenty least developed countries with a total loan portfolio of more than $ 43 million.

Until the 1970s, small loans were provided by the governments and donors on subsidised interest rates based on the view that poor could not afford to pay market interest rate. In early 1970s, new set of techniques were developed and applied by MFIs such as GB in Bangladesh and the Bank Rakyat Indonesia in the village level operations, to name the two institutions with greatest outreach. While the techniques differ between these institutions, still three principles weigh heavily in their successful operations : (1) willingness of the poor to pay for access and convenience in terms of location of outlets, simple application procedures and quick disbursement; (2) special techniques to slash delivery cost by involving group dynamics and (3) ensure high repayment rates through peer pressure and close monitoring.

Professor Yunus (the founder of GB, Bangladesh) holds the view that the poor people of Bangladesh have developed survival skills over the generations. They are able to cope with frequent floods and other natural calamities. They have knowledge and skills to carry out small activities in various seasons of the year to generate income. There are abundant opportunities both for men and women to undertake quick IGAs like making rice by pounding paddy, making various products out of bamboo etc. But the major hurdle *according to Prof. Yunus is lack of working capital with the poor.* Obviously capital is available but at exorbitant rates and very unfavourable terms from money lenders. The poor enslave themselves to meet the basic need of food in times of **distress**. To break this vicious circle of poverty (i.e., low income, low

[15] UNDP Poverty Report 2000, p 90

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savings, low investment, low productivity again leading to low income), working capital is needed.

Among other factors, the basis of emergence of microfinance (specially in the semiformal sector) is the mismatch between, supply perspective (mostly formal sector) and the demand factors (need of microfinance) which may be summarised in table 3.8 :

Table 3.8 Comparison/ Mismatch between Demand and Supply

Demand Perspective (Needs of the Poor)	Supply Perspective (Traditional Formal Sector)
• Credit + : Savings, emergent needs, Consumption & Productive loans • Interest Rate is not a determinant factor for credit. Subsidy welcome • Credit at door step • Empowerment leads to economic uplifting • Grassroots participatory organisations to address socio-economic issues • A favourable environment to facilitate economic decisions by the poor • Government programmes are charity	• Credit alone : Poor cannot save and therefore Cannot repay consumption loans. • Poor cannot afford higher interest rates. They avail loan primarily as subsidy • Cannot reach due to high Cost. • Empowerment is not envisaged in the system. • Co-operatives are meant for this purpose. • The planners and executives know better as to what is in the best interest of the poor. • Political systems have given wrong signals

3.5.1 The Pace of Reducing Poverty

The results of a survey carried out by Analysis of Poverty Trend (APT) project of BIDS in 1994 shows a rough calculation that with 3 percent per capita annual income growth, it will take 30 years for someone from amongst the HCP to be lifted out of poverty . Even if we consider a per capita growth of 4 percent, the crossover time will still be in the order of twenty three years (**Table 3.9**)

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Table : 3.9 Cross Over Time To Move Out Of Poverty Under Different Growth Rates

Growth Rate of Per Capita Income	Cross over Time (No. of Years) for	
	Average Poor	HCP
1 percent	51	89
2 percent	25	45
3 percent	17	30
4 percent	13	23

Source[16]: Centre for Policy Dialogue (1997), *Growth or Stagnation ; A Review of Bangladesh's Development 1996,* Rehman Sobhan UPL, Ch 5 : Poverty and Policy P117, Binayak Sen

The estimates given in **Table 3.9** are sensitive to the choice of the poverty line and the estimation of average income of the poor, but the central message is worth emphasising leading towards the conclusion that the exclusive reliance on simply growth is not enough for alleviation of poverty, the political, social and human costs of waiting for the hardcore poor may be too high. There is also no guarantee that the growth rate will sustain. Such skepticism indicates the limitations of a policy approach which puts exclusive reliance on the trickle down process.

According to an estimate[17] with an 18 percent annual increase in consumption, a poor household of six members could be free of poverty by borrowing about Tk 12,000 ($ 300) a year. Poverty reduction estimates based on consumption impacts of credit shows that about 5 percent of programme participants can lift their families out of poverty each year by participating in and borrowing from microfinance programme. The effect of microcredit programs on village level poverty reduction is smaller. Overall, only 1 percent of rural households can free themselves from poverty each year through microcredit. Moreover, some of this reduction may result from income redistribution rather than income growth. The social cost of supporting microcredit programmes is low, being estimated as $ 11 per household per year.

[16] The cross -over time is estimated following Kambur (1987). The 1994 survey of Analysis of Poverty Trends Project of BIDS is used for the purpose. The poverty line corresponds to Tk 524 per person per month. Mean per capita monthly income of the average poor and HCP has been estimated at Tk 317 and 215 respectively

[17] Khandker, 1998 p148

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GB feels it takes 10 to 12 years for a borrower to move from poverty situation to no poverty situation. ASA feels that it takes 7-8 years for the borrower to cross the poverty line while BRAC officials were of the opinion that it takes 10 to 12 years for the borrowers to cross the poverty line and stabilise themselves above the poverty line.

It may be concluded that a long time (more than 10 years) is required to bring the poorest of the poor up to adequate consumption level. The world Bank in its discussion paper rightly points out " *Under the right conditions, economic growth can be powerful weapon against absolute poverty. However, the initial conditions for poverty alleviation through growth are often less than ideal and further growth is less than equitable. It may thus take a long time to bring the poorest up to adequate consumption level. Governments will rightly be unhappy with this, and may want to intervene directly to increase the pace of poverty alleviation*"[18]

3.5.2 The Credit Methodologies : The 'Credit Only' and The 'Credit Plus' Approach

Credit Methodology is a set of systems and procedures developed by a credit programme in order to deliver its services to its participants. Broadly, the credit methodologies can be divided into two categories **(Fig 3.1)** based on the guarantee of their loans : (1) *individual lending* which is guaranteed by the borrower 's collateral and or cosigners and (2) disbursement via *groups or Peer Lending or Group Lending* in which the members of the group guarantee repayment of each others' loans. The current dominant methodologies conceptualise from this typology.

[18] The WB (1990), Discussion Paper 94, Ravallion M

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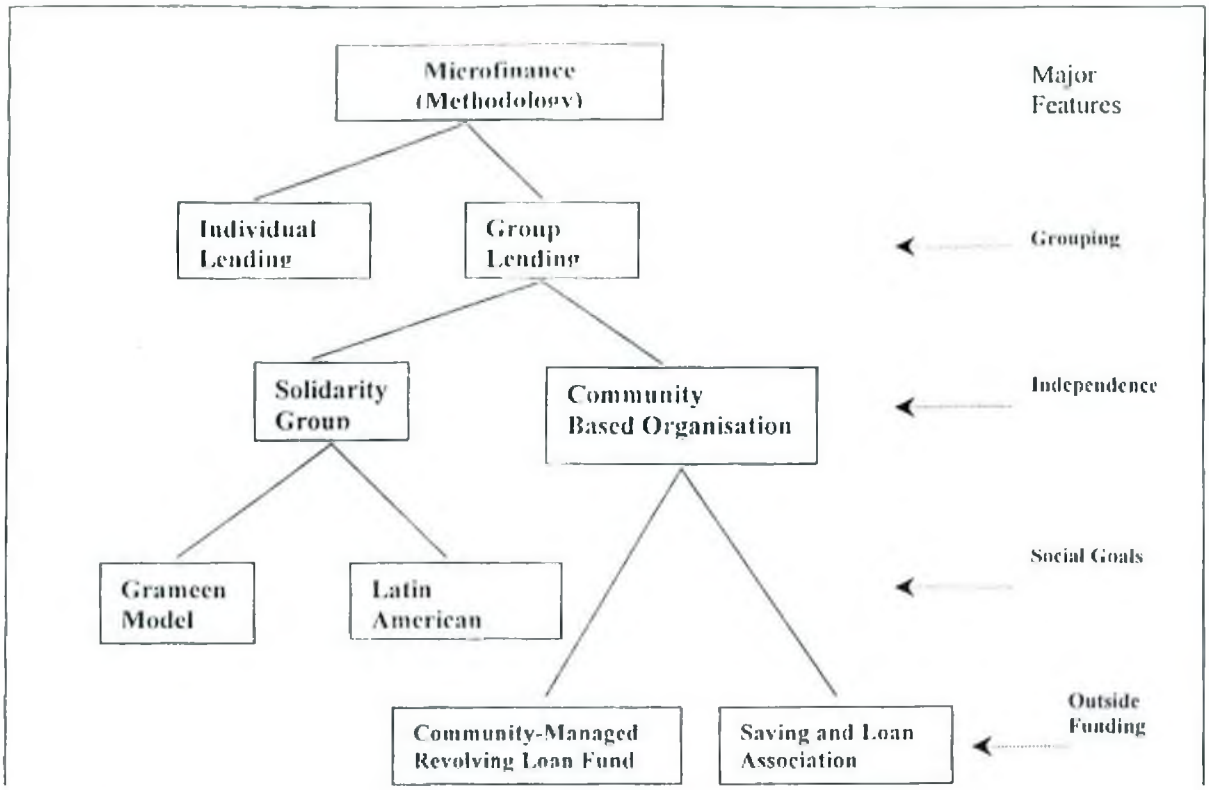
Fig : 3.1 Microfinance Methodologies



Adapted and Modified from : Savings and Credit management for NGOs, CARE (1996)

The methodologies which guarantee business individually are usually highly modified variants of the systems employed by the commercial banks with some additional techniques and tools drawn from the experience of the money lenders. In the Group lending, the functions typically performed by the bank staff are delegated to the borrower group such as identification and screening of the borrowers, small and gradual increase in loan size, monitoring etc. The individual lending programmes can all be clustered together as they follow more or less the same basic approach. As illustrated in **Fig 3.1**, the **Group Lending** can further be sub-divided into two approaches : (1) **Solidarity Groups** which generally do not anticipate the eventual graduation of the group from the lending institution and (2) **Community Based Organisation** (CBO) which envisage the primary goal of developing financial management capacity of the group so that the group can act like a mini bank and achieve eventual independence from the lending institution.

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The approaches related to Solidarity Group can further be bifurcated on the basis of loan guarantee mechanism (**American Model**) and as a means of social change (**Grameen Model**). Similarly, CBO approaches can further be classified into; (1) Community Managed Revolving Loan Fund (CMRLF) in which a part of the loan fund is received from outside the group resources and (2) Savings and Loan Associations (SLA) which (without receiving outside funds) generate their own funds through internal mobilisation of members savings.

The credit delivery-recovery and savings mobilisation methods of the MFIs have similar characteristics such as : focus on the poor mostly rural poor and women; service delivery through small groups; easy and simple delivery and recovery system; non-collateral lending (group liability or social collateral replaces formal material collateral); credit for any IGA usually chosen by the group members; weekly repayments and maximum 50 weeks maturity; mandatory savings; simple documentation compared to formal system ; transparency (general impression from supply related stakeholders) of financing activities; and awareness building and training for group members and organizational staff.

Generally, the two main approaches (WB,1999) - *Credit Only (Minimalist)* and *Credit Plus (Multisectoral or Integrated)* - are applied by MFIs. Most of MFIs in Bangladesh use group based delivery mechanism to provide microcredit to the rural poor, particularly, women. Credit only also called **Minimalist** approach (eg. ASA, GB) envisages financial intermediation which include savings, loans, insurance etc. and social intermediation including awareness building and group formation. The Credit Plus also called **Integrated Approach** provides social services (eg. Education, health and nutrition, literacy, training, etc.) and enterprise development services such as forward and backward marketing linkages in addition to providing services mentioned under minimalist approach. The essential features of Minimalist and Integrated approach are illustrated in **Fig. 3.2**

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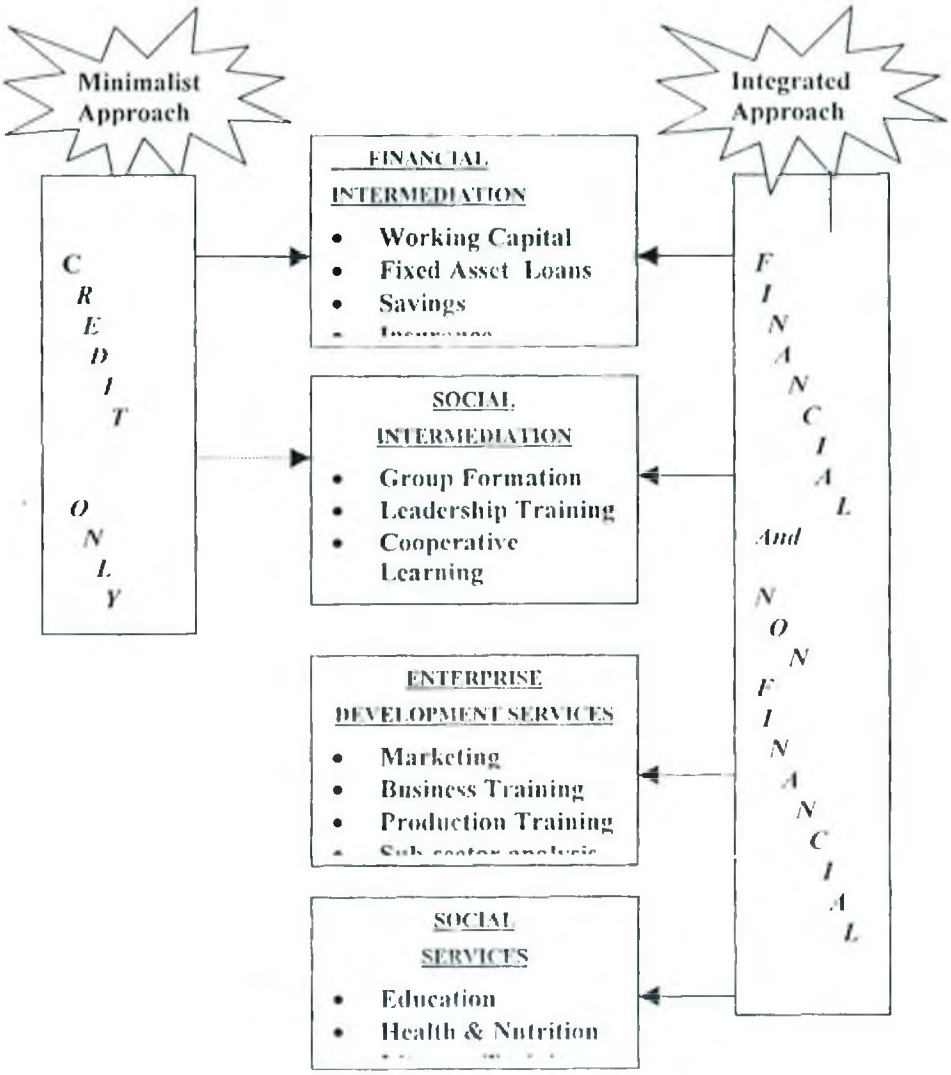
Fig : 3.2

Minimalist and Integrated Approaches to Microfinance



Source: Adopted (modified by the author) from Microfinance Hand Book WB, 1999

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3.5.3 Factors Towards Success of Microfinance

In various credit delivery initiatives in countries like Bangladesh, India, Thailand, Philippines, a common factor contributing towards the success of MFIs is the "*Partnership*" approach which involves multi-agencies support as development partners providing microfinance services. An analysis of various microcredit programmes indicate the following factors which contribute towards the success of microcredit programmes:

(1) *Building local People's Organisations:* Most successful MFIs have developed elaborate mechanisms and processes for the development of local organisations of their members. Generally, it involves careful selection of members from similar socio-economic background and their orientation and conceptualisation. Most credit programmes keep considerable gap between the group formation and the disbursement of first loan to ensure that members behave as a group and follow group norms. These organisations, are usually grassroots organisations with varying nomenclature. Conceptually, these grassroot organisations or CBOs play vital role in: identifying and organising groups of targeted beneficiaries for microcredit; ascertaining beneficiaries profile; identifying IGAs and local infrastructure needs; approving loans and ensuring repayments; reducing information gaps which are major causes of high default of small credit; acting as a centre of various developmental activities that are promoted by the credit ;

(2) *Self management and participatory decision making:* Self management and participatory decision making by borrower-members create a sense of ownership of the microcredit programme ; confidence development among members; social mobilisation and behavioural development; transparency in the microcredit process; healthy norms ensuring repayment; transaction cost within acceptable limits;

(3) *Group Guarantee as Social Collateral:* It has become a standard practice to obtain joint group guarantee of the repayment of the loan by individual borrowers.

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To institutionalise this mechanism, the borrowers are organised in small groups, e.g.,five members in Grameen Bank and group guarantee is obtained jointly from all members. Group guarantee provides: a social pressure on the borrower (s) to ensure repayment; joint responsibility of group members to undertake more profitable IGAs; transparency in credit operations. However, still there are some successful programmes like ASA which has a repayment rate of 99 percent plus and where the borrowers are not organised into small groups. Instead, ASA relies on demonstration effect of 20-25 members complying regularly with the norms of credit delivery and repayment to ensure easy compliance with the norms by each member individually ;

(4) *Matching Credit Policy with member's Economic and Financial Credit Needs:* It has been recognised that poor need easily accessible, reliable and appropriately designed package of financial services, and not necessarily subsidised credit. It is also recognised that effective and productive use of credit is linked to matching credit with the specific needs of borrower's enterprise. The successful microfinance programmes envisage a mechanism of careful selection of micro-enterprises and credit needs for their beneficiaries.;

(5) *Linkages with overall Developmental Activities :* Poverty is the outcome of a number of inter-linked factors and variables that require multidimensional response. Successful microfinance programmes have attempted to promote different packages of development actions that go beyond the prudent and economic use of the credit.

3.5.4 Issues in Microfinance

The issues in microfinance may be classified into four categories as discussed below:

(a) ***Targeting the Poorest and achieving Sustainability:*** It appears, that there has been no significant reduction in overall poverty level at macro level. On the other hand, studies of microcredit programmes indicate their enormous success. One of

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the reasons of this contradiction, may be that the microcredit programmes have not been able to include the hardcore poor. The destitute themselves feel that they are not creditworthy and that the microcredit programmes do not see them as having entrepreneurial ability. In order to address the issue of including the poorest of the poor, a number of questions may be raised such as : Is there a need for a totally different product and delivery mechanism to address the problem of HCP ? ; Are the existing institutions enough to address this problem or some new institutional arrangement are required ? ; Is there a need to reform the existing institutions, products and delivery mechanism ?; What should be the appropriate entry point eg training before credit, cash grant, food supply or saving mobilisation ?; Is there a need to define the role of small MFIs and large MFIs to target moderate and the HCP, respectively ?; What should be the role and policy of the Governments ?

(b) ***Widening the target group:*** MFIs have potential for horizontal expansion. For instance in case of Bangladesh, the existing MFIs could cover only 35 percent of the target households. To increase participation and widen target group, new strategies with innovative products and mechanism are needed. In expanding the target group, the following issues are faced: Should MFIs follow the same approach of group lending in order to attract new groups of borrowers e.g; small business and rural industry ? ; Should the MFIs offer saving schemes to those who do not wish to borrow but would like to deposit their savings ?; Is it necessary to provide individual loan to expand vertical coverage ?; With vertical coverage, will it not be a compromise with the original mission of poverty alleviation ?; Should credit be extended for the activities other than IGAs such as children's educational loan, pension schemes to be offered by the larger institutions ?

(c) ***Accessing non-Donor Source of Financing:*** Donor funding has been a major contributor in the success of microcredit in the past. There is every possibility that the current trend of decreasing donor funding will continue. In such situation, how can the microcredit institutions fill the gap in resources. Mobilising savings and using commercial banks are the two major sources for MFIs. To access non-donor

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source of funding, the MFIs may encounter the following issues: GB has borrowed from commercial banks by issuing bonds. Can MFIs of other countries in the region do the same?; Many MFIs borrowed from commercial banks eg ASA borrowed from the Agrani Bank, Orangi Pilot Project from Habib Bank of Pakistan (Khan, A., H., (1996) , SRSC from Khyber Bank (NRSP, 1997) ; Can MFIs borrow from the local stock market by issuing equity ? Equity financing entails transparency and giving up autonomy. Are the MFIs willing to give up autonomy ? Is it possible for Governments to provide funds to big MFIs for onlending on their own ? What about commercial funding from overseas. Can and should the MFIs use this source of funding ? How would the MFIs deal with the foreign exchange risk of borrowing from abroad ?

(d) ***Internal and External Governance Issues:*** Research in Bangladesh and other places show that a crucial element for the success of MFIs is the quality of leadership. Most successful MFIs were started by a charismatic leader or a group of energetic leaders. This phenomenon has positive as well as negative consequences. There is an understanding that the microfinance movement has evolved in a regulatory vacuum. In particular, there is no regulatory framework that caters to the special nature of MFIs. Given the current outreach of microfinance, it may be necessary to develop a rational regulatory framework through consensus. The question of internal and external governance raises the following issues: Are the institutional structure and culture conducive such that new generation leaders will be able to steer the MFIs to the next century ? How can one create an optimum regulatory regime that will protect the interest of all partners of microcredit movement ? Should the laws be changed to allow MFIs to take deposits ? What type of regulations are necessary to ensure the safety of deposits?

A few other shortcomings found in MFIs are: the large national level MFIs are top-heavy, sometimes bureaucratic and not fully accountable to donors; external audit

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and annual reports are not regular features; the smaller or local MFIs are often fragmented amongst themselves; reluctant to adopt performance indicators.

3.6 Conclusions

Most of the studies on poverty restrict themselves to the measurement of poverty without providing socio-economic profile of the poor. Such a profile is important not only to identify the causes of poverty but also is helpful for determining a proper direction and targeting of poverty alleviation programmes and framing policies accordingly. The appropriate method argued in this study for measurement of poverty (in absolute sense) is Food Energy Intake Method in which required calories are monetised including food as well as non food requirements. In addition the addititively decomposable measures proposed by Foster, Greer and Thorbecke (FGT) is utilised in the present study. The FGT measure is additively decomposable by population sub-groups, as a result the aggregate poverty can be represented as an appropriately weighted sum of poverty levels in the component sub groups of a population. Additionally, a poverty pyramid is further suggested for analysis (see chapter 5) related to identify and characterise hardcore poor . The poverty line expenditure in Bangladesh is based on the cost of basic needs method.

The uneven behaviour in the progress of reducing poverty in Bangladesh is evidenced by : (a) the poverty reduction during 1983-85 and poverty increase during 1985-91 makes instability in poverty reduction ; (b) the decrease in national poverty during 1984-92 was due to gains to the urban poor. During the later period, the incidence of urban poverty using the head -count measure decreased by 7 percent in sharp contrast to only 1 percent recorded for the rural sector. The national head-count index fell at a rate of 0.6 percent per year compounded over the entire period (Sen B , 1997) which implies that the total number of poor in Bangladesh increased at the rate of about 1.5 to 2 percent per year; (c) the progress in reducing poverty was not accompanied by the decline in extreme poverty. Osmani (1990) provides an evidence applicable for *1973-83 period during which proportion of total poor decreased but the incidence of extreme poverty increased substantially ie 25-29 to 38 percent.*

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UNDP statement (given as quotes in the beginning of this chapter) provides a clear indication that small scale interventions including microfinance are increasing and also becoming common practice in many countries at the cost of other measures which are long term and may be more sustainable. The strategy of poverty alleviation in Bangladesh envisages three-pronged approaches : (1) Enhancing growth rate (2) Accelerating social investment to enable people becoming to participate in economic activities ; (3) Supporting targeting programmes envisaging microcredit as well as ensuring minimum security, especially at the time of distress. These approaches are further transformed into actions which include : (a) growth projects (including physical infrastructures such as road and electricity and new technology in agriculture); (b) human development (education, health and nutrition); (c) microcredit, self employment; (d) income transfer programmes (also known as safety nets); and (e) social mobilisation (empowerment at both gender and institutional levels). The Five Year Plans of the country support poverty alleviation as one among the priority agenda items of the country. Particularly the 4th Five Year Plan (1990-95) was formulated as a part of a perspective plan for 1990 - 2010 in which poverty reduction got emphasis as an objective (end) as well as a strategy (means) and poverty alleviation through accelerated growth (7 percent on average) is one among the development goals of 5th 5 Year Plan.

NGOs constitute a large active and effective sector with nationwide coverage in Bangladesh. Despite variations in perceiving problems and resultant thrust of various programmes, the NGOs by and large follow *Target Group Strategy*. Major issues confronting these NGOs or MFIs are related to : outreach, sustainability, deposit taking, transformation of credit NGOs into formal financial institutions and absence of performance standards. There are also increasing concerns about sustainability of such programmes and institutions. The supply side factors of MFIs (their institutional mechanism and outreach) require further analysis which follows in the next chapter.

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Chapter IV

EXCLUSION OF HARDCORE POOR : AN OUTREACH ANALYSIS OF SELECTED MFIs

" Bangladesh has a strong tradition of NGO movement: It is estimated that NGOs currently cover over 78 percent of the villages in Bangladesh and about twenty four million people (approximately one fifth of the population) benefit from their activities." [1]

4.1 Introduction

This chapter deals with development NGOs of Bangladesh envisaging microfinance which are also called MFIs. Comparison has been made taking into account the related parameters pertaining to their salient features, credit profiles, institutional and operational mechanism, particularly with the perspective of poverty targeting and outreach. A synthesis of sources of credit has been carried out. An analysis of comparative performance of major MFIs has been made compiling and consolidating vital parameters outlined to assess their performance over past five years (1995-99). Major source of data is various reports and periodicals published by Credit Development Forum (CDF). To what extent the MFIs have been able to reach the hardcore poor remains the central issue in the discussion and drawing inferences.

4.2 An Overview of Microfinance

4.2.1 Historical Perspective

Starting from the beginning of nineteenth century, the historical developments of providing microfinanc services can be summarised into the following :

(1) *Colonial Period (up to 1947)* : During this period the major emphasis was on the development of cooperatives. Started in 1904, the cooperative movement continued with its regulatory frame work envisaged in : the Agricultural Loan Act 1885, Usurius Loan Act 1933, Bengal Money Lenders Act 1933, Debt Settlement Boards 1935.

[1] The Human Development Report in South Asia 1999 is one among the annual series of reports since 1997 structured by (late) Dr Mahboob ul Haq The report is prepared in close collaboration with the field offices of UNDP in South Asia.

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(2) *East Pakistan Period (1947-71):* During this period Agricultural Development Bank of Pakistan was the main source for rural finance. The approach was based on *trickle down* effect with subsidised lending. The cooperative system was formalised after the successful experiments in Comilla at (then) Pakistan Academy for Rural Development (now BARD) by (Late) Akhtar Hamid Khan

(3) *Bangladesh's Rehabilitation Period (1971-76) :* NGOs movement originated with rehabilitation spirit during early years. Banks were nationalised. Public sector emphasis remained on the development of cooperatives. The growth of NGOs continued with financial support mainly from donors. During the year 1975, the number of local and foreign NGOs were 45 and 56 respectively[2].

(4) Evolution of Development NGOs (1976-90) The NGOs movement gained substantial momentum envisaging poverty alleviation initiatives followed by evolutionary emphasis on microcredit. Local NGOs increased six times reaching to 395 and foreign NGOs were 99 at the end of 1990-91. During the same period, larger MFIs such as the Grameen Bank (GB) started targeted lending, BRAC started credit plus training. ASA and Proshika were active in social mobilisation instead of financial services.

(5) *Expansion In Microfinance (1990-95)* During this period, GB expanded reaching 2 million clients. BRAC expanded to 1 million. ASA moved from social mobilisation to credit entailing simplified GB model, increasing efficiency with innovations and started growing rapidly in scale and sustainability. Foreign funding (aid) disbursed to NGOs was almost doubled (96 percent) i.e. increased from 107 million US $ in the year 1990-91 to the tune of US $ 210 million in the year 1995-96. PKSF was established to promote and provide funding support for microcredit activities. Proshika started focusing on financial services besides social mobilisation.

(6) New Horizon (1995-99) During this period, Grameen stopped its horizontal growth, mobilises Grameen companies focusing on replication of GB model within and abroad. The issues of regulation and governance of MFIs services became important

[2] The figures have been extracted from ADB : NGO Affairs Bureau quoted by Ahmed Mohiuddin, 1999 p27

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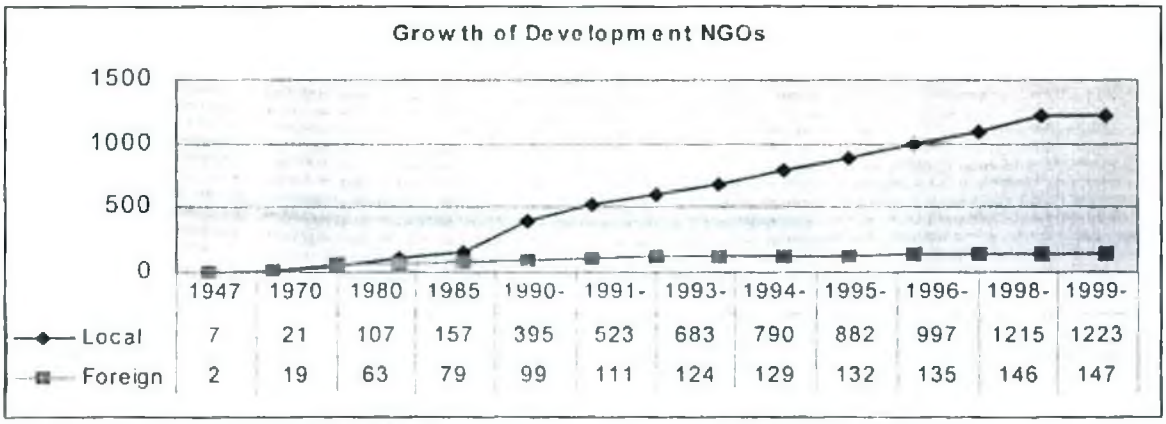
topic for discussions and concerns. Growth of Development NGOs continued further increasing from 790 local and 129 foreign NGOs in the year 1995-96 to 1215 and 147 respectively in the year 1998-99. The MFIs who registered under cooperatives act were allowed to mobilise savings from the public. However, during this period the NGOs foreign funding remained almost stagnant being US $ 210 in 1995-96 which was US$ 207 during 1997-98.

Microfinance got separate identity in Bangladesh after launching Grameen Bank Project in 1976. However, before that all major commercial banks were nationalised in 1972 with one of the objectives being enhancing credit in rural areas. Cooperatives and Rural Development Programmes of Government of Bangladesh were other means of microfinance in the country. The microfinance sector by and large evolved out of non-profit development community. Initially, most of the NGOs started as rehabilitation and relief organisations with substantial contributions and support from donors. During the last decade almost all the NGOs started microfinance activities. Local NGOs increased sharply since mid eighties as it may be seen in **Graph 4.1**

Graph 4.1



	1947	1970	1980	1985	1990-	1991-	1993-	1994-	1995-	1996-	1998-	1999-
Local	7	21	107	157	395	523	683	790	882	997	1215	1223
Foreign	2	19	63	79	99	111	124	129	132	135	146	147

Data Source : ADB; NGO Affairs Bureau Bangladesh, qouted in Ahmed M (1999a)

The foreign development assistance to Bangladesh over the past decade has shown a decreasing trend from US $ 1732 million in 1990-91 to US $ 1241 million in 1997-98. However, the percentage of share of aid to NGOs, has comparatively, shown an increasing trend from 1990-91 to 1995-96 as it may be seen **Graph 4.2** The NGOs received Tk 30.14 billion foreign fund (about 10 billion per year) from the year 1995-96

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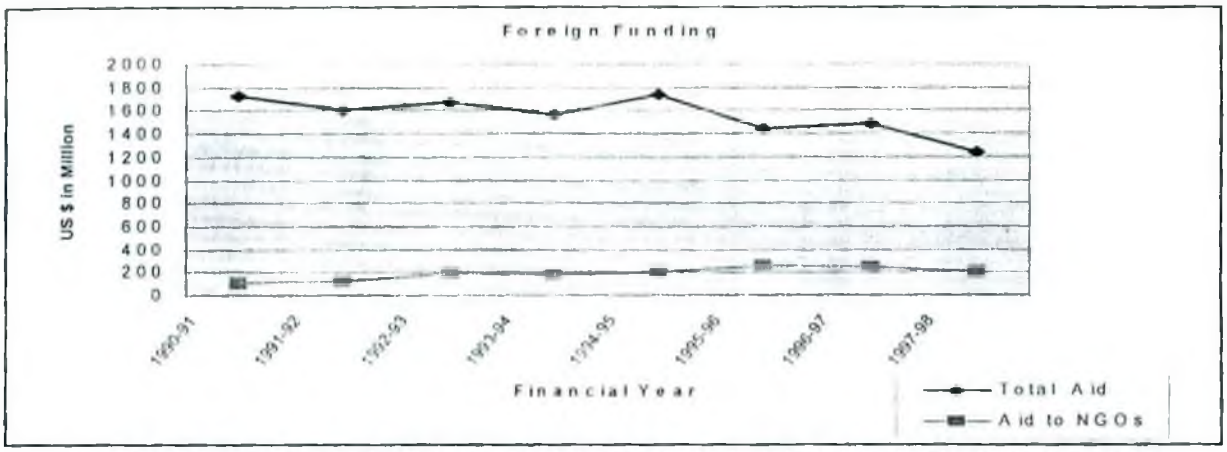
to 1997-98. The assistance by and large comprised of grants. During 1997-98, BRAC alone received Tk 4.02 billion from foreign donors and 0.886 billion from the Government of Bangladesh whereas its own income was Tk 4.35 million.

Graph 4.2



Data Source: Community Development Library (2000), *Bangladesh in the NewMillenium p 414*

The financial service industry in Bangladesh is highly fragmented with little integration and overlap between the formal, semi-formal and informal markets for credit, savings, insurance and various non-bank financial services. The trends with the different actors in the MFI sector are summarised as follows:

- The NGOs, have increased their involvement and dependency on microfinance programme for sustainability. Mobilization of savings became a priority. Innovations in savings and credit products are taking place. Majority of NGOs are thinking for self-regulation. Small and medium NGOs are suffering from capital problems to expand their services.
- Due to consolidation policy (to make all the branches viable), the GB is gradually losing market share. It has started diversifying and adapting new products in many areas.
- The traditional approach has been replaced by GB approach by the public sector agencies. The main public agency, BRDB is likely to turn into a Bank. Collaboration with NGOs have started.

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- Many commercial banks (Sonali, Janata, Agrani) have started micro-lending in collaboration with the NGOs. Some banks are directly engaged in micro lending. The banks have initiated flexible policy to utilize the NGOs in a more effective way to channel credit at grassroots level.
- The donors are putting pressure on portfolio management and quality of services. Majority of donors have stopped providing grants to NGOs for Revolving Loan Funds.
- PKSF adopted rating system amongst its partner organisation. It has been receiving more money from the World Bank to expand lending. It is planning for enterprise lending.

Government's own participation in microfinance in Bangladesh may be seen in two ways. One is directly through its rural development projects. Bangladesh Rural Development Board (BRDB) is the main designated government organisation directly involved in rural development since the independence of the country in 1971. The other way through NGOs is largely in credit plus form and in terms of providing enabling environment for MFIs to function smoothly. Government of Bangladesh through NGO Affairs Bureau has evolved an informal system of keeping track of NGOs receiving foreign money. PKSF has developed a system of screening NGOs for providing financial assistance.

The major stakeholders of microfinance in Bangladesh may be classified into : (1) The *Public Sector* MFIs (BRDB, GB); (2) *Semi-formal* Sector ie the Microfinance NGOs (ASA, BRAC, Proshika) ; (3) MFIs *Support Organisations* (PKSF, NGOs Affairs Bureau, Credit Development Forum, CIRDAP)

4.2.2 The Sources of Credit

One third households avail credit in Bangladesh. Among the rural households, about 41 percent borrow from either institutional (NGOs and Commercial banks) or non-institutional sources (relatives, money lenders) compared to 23.5 percent for urban households. The NGOs are the largest source (14.9 percent) of institutional credit for the poor households followed by Grameen being 9.9 percent.The following table

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(Table 4. 1) provides a summary of various sources of credit[3] available for poor and non – poor.

Table: 4. 1 Distribution of Sources of Credit for poor and non – poor

Credit Source	Percent of Households					
	National		Urban		Rural	
	Poor	Non-poor	Poor	Non-poor	Poor	Non-poor
Institutional						
1. Govt. Banks	8.4	16.4	3.5	9.3	10.3	18.7
2. Private Banks	1.8	2.8	1.6	3.5	1.9	2.6
3. GB	9.9	8.4	6.8	1.9	11.1	10.5
4. Co-operatives	1.2	1.2	1.5	3.0	1.1	0.6
5. NGOs	14.9	11.4	10.7	6.4	16.5	13.0
6. BRDB/Youth/Social welfare	2.8	3.8	3.4	2.9	2.5	4.0
Non-Institutional						
Relatives	26.3	25.6	35.0	37.4	23.0	21.8
Non – relatives	12.5	11.6	14.5	15.6	11.8	10.3
Money Lender	14.9	11.8	9.6	8.7	16.9	12.8
Others	7.2	7.1	13.3	11.4	5.0	5.7
Total	100	100	100	100	100	100

Source : CIRDAP - BBS Poverty Monitoring Survey, April-May, 1999

The proportion of non institutional sources of credit to institutional sources is 57 percent and 43 percent respectively. It is interesting to note that in Pakistan the non institutional sources (Arif, etal, 1999), constitute 78 percent and the rest 22 percent credit come from institutional sources. It may be due to overwhelming role of credit NGOs in Bangladesh. The government banks are the main source (16.4 percent) of household credit for the non poor households. Relatives were found to be a major source of credit for both poor and non - poor households. Followed by NGOs (16.9percent), GB was the second largest source (11.1 percent) of rural credit in Bangladesh. Money lenders as a source of rural credit (6 percent) is still higher compared to Pakistan (3.4 percent)

[3] The quantative analysis is based on the findings of a recent CIRDAP - BBS survey conducted during April - May, 1999 through a large sample size of 16000 households (6000 urban and 10,000 rural) in the country.

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4.2.3 The dynamics of NGOs : A Change from Care and Welfare Towards Credit and Credit Plus

In the colonial times, NGOs were working for welfare activities, while presently NGOs go for change and development rather than care and welfare activities The common mission of MFIs explicitly remains poverty alleviation. The largest MFIs claim their vision to serve the poorest in the rural areas (CDF, 1996). ASA provides credit exclusively to women with its vision " *Creating a broader space for marginalised women of rural areas as they can participate in income generating activities to increase their income*". BRAC established as a relief organisation in 1972, over the years has gradually evolved into a large and multifaceted development organisation with its objectives stated as " *Alleviation of poverty and empowerment of poor*" (BRAC, 2000) and it has a focus on the people living below the poverty line. GB is the largest rural credit institution in Bangladesh extending banking facilities to the poor and brings the disadvantaged, mostly the women from the poor households into the fold of an organisational format (Grameen, 1999). Proshika has an explicit mission to " *Make the poor economically self reliant through undertaking income generating activities.*"

The MFIs have some common characteristics in their institutional mechanism (Sharama, etal. 1999). Some are listed below :

- **Collateral free Credit** with simple documentation. In most cases, a simple application on a piece of paper is used (no judiciary stamp). The application signed by the borrower and the respective group members and centre chief is forwarded with recommendation to the respective branch[4] by the MFI's field staff. Usually, the branch manager is competent to approve the loan.;
- **High Rate of Repayment** (95percent - 100percent) ensured through monitoring and close supervision;

[4] The nomenclature for branch equivalants varies for instance, the branch level functions are performed by Area Developnet Centre in case of Proshika; Similar functions are performed by Area offices in case of BRAC while branch is termed in both GB and ASA

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- **Instituting Group Dynamics** (viz. Weekly[5] meetings, savings mobilisation, repayment of weekly instalments in most of MFIs etc) and awareness raising and human development;
- **Exclusive focus on Women :** Most of the members or the loanees (about 80-85 percent) are women ;
- **Amount of loans** : On average it varies from Taka 2,000 to Tk 10,000;
- **Interest or Service Charges varies even more than 30 percent :** On flat basis about 81 percent MFIs (390 NGOs) charge 11-15 percent , and 13 percent MFIs (61 NGOs) charge 16-20 percent interest. The effective rate becomes almost doubled; however, it has been experienced that the cost of credit has not become an issue for the microcredit borrowers;
- **Rate of Interest on member's Savings :** More than half of the MFIs (200 +) pay 6-7 percent on the savings of the members (CDF Vol 9)
- **Instant Income Generating Activities:** Microfinance is provided mostly for non-farm instant income generating activities. About 42 percent (CDF Statistics vol 9, 2000) microfinance borrowers are engaged in small businesses;
- **Use of land criteria** (landlessness and nearly landlessness) to identify the target beneficiaries .Mostly, the criteria of targeting is based on the ownership of less than 0.5 acre of cultivable land or having total assets lower than one acre of land in the locality;
- **Short term loan** within one year in weekly instalments;
- **Timely Repayments :** the peer pressure - the main theme of the group approach - acts as a driving force in ensuring timely repayment of credit;
- **Credit proceeded by skill development training,** where necessary, credit is also followed by marketing support to the entrepreneurs;
- **Enforced provision of savings** with a view to generating own fund of the members and gradually lessening dependence on credit;
- **Simultaneous intervention in other areas** such as health, sanitation and community development etc. to improve overall condition of the group members.
- Although loan is provided to individual members, but entire group in usual practice, is **denied further credit if there exists outstanding arrears** for any of the members;

---

[5] weekly meetings are common in case of GB and ASA from the very beginning. However, BRAC was holding meetings on fortnightly basis until the end of last year. Now from this year 2000, BRAC has also started their microfinance transactions on weekly basis. However, at the same time ASA has started another innovative pilot projects in four districts by conducting microfinance without weekly meetings (ie individual approach). The results are reported to be successful. However, an evaluation towards this effect will be interesting which opposes the Gramern Group theory.

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- Lending **activities are supplemented by training activities** ranging from entrepreneural skills development; craft production; education on social awareness and family planning;
- Contribution of groups to **emergency fund** that may be used by members at their need on emergency occasions

Two more unique features are noticed in the functioning of MFIs in Bangladesh. **First** is the partnership between big and small NGOs in providing more finance. For example, since 1995, ASA has been running its partnership programme with small and local NGOs. The objectives of this programme are : to share experiences; cover remote and deprived areas and create sustainable and capable microcredit practitioners. Up to December, 1998, ASA provided Tk 27.55 million financial support to promote 16 partners. These partners formed 1901 groups by organising 35,391 members with net savings deposits of Tk 22.58 million. Credit disbursement to 29,966 borrowers totalled Tk 110.28 million. Besides financial support, ASA has been providing technical support to 90 local and small NGOs. In respect of BRAC, upto December, 1998, 35 NGOs had received financial support to the tune of Tk 9.8 million under similar partnership programme. The **Second** feature is remarkable resilience of NGOs to respond to changing needs of the time. Both ASA and BRAC started with health and education programmes but later on shifted to microfinance. BRAC is now contemplating to deploy a nation-wide network of BRAC Bank.

The three major NGOs (BRAC, ASA and Proshika) have clear and strict poverty based eligibility rules. BRAC lends to individual who owns less than 0.5 acre of land and also works as labourer for at least 100 days in a year. ASA on the other hand lends to women owning less than 0.5 acre of land and whose income does not exceed Tk 1500 per month and who also sell their labour for at least 200 days a year

4.2..4 Outreach of MFIs

Bangladesh has a very large, active and effective NGO sector that substantially complemented the mainstream efforts for socio-economic development. The country probably offers the best documented and most varied efforts envisaging innovative approaches in microfinance. Microfinance institutions operational since last twenty five years in Bangladesh have succeeded in increasing their outreach to more than 8.7

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million (85 percent female and 15 percent male) active borrowers[6] as reported by 524 microfinance NGOs of which 26 percent (137 NGOs) are urban (CDF,2000).

The number of households having access to various MFIs targeted programmes has increased considerably over the years. The NGOs have emerged successful in terms of their outreach particularly targeting the women in contrast to the vast network of institutional financial intermediaries (e.g. commercial banks and specialised credit institutions like Bangladesh Krishi Bank). The growth in the number of borrowers during the period 1990-94 can be seen in **Table 4.2**.

Table 4.2: Number of borrowers of MFIs (1990-94)

MFIs	Years				
	1989-90	*1990-91*	*1991-92*	*1992-93*	*1993-94*
A. Government	79,351	46,932	67,196	146,731	147,371
Ministry of Women's Affairs	-	3,386	-	765	17,796
Ministry of Youth and Sports	-	-	5,200	17,300	22,500
BRDB	79,351	43,546	61,996	128,666	107,075
B. NGOs	1,128,111	1408,034	3722,897	3696,810	3133,627
BRAC	189,272	267,834	1385,324	1682,914	707,429
GB	852,522	1041,630	1385,326	1682,914	2002,819
Proshika	60,599	83,032	79,348	115,159	133,978
ASA	-	-	857,534	197,757	262,429
Swanirvar	25,718	15,538	15,365	18,066	26,972
C. Banks	-	6506,833	3942,188	4404,018	5022,517
Nationalised Banks	-	2502,719	1414,864	1581,939	1752,282
BKB and RAKUB	-	3097,430	1659,687	2019,545	2467,701
Private Banks	-	906,684	867,637	802,534	802,534
Total	-	7961,799	**7732,281**	**8247,559**	**8303,515**

Data Source: CPD 1995

The Grameen Bank (GB) in many studies (such as CPD above) has been shown among NGOs which is not appropriate. It should come under public sector as it was established under a presidential ordinance in October 1983, as a specialised bank for the rural poor. The number of borrowers in Government institutions are higher (30 percent) followed by BRAC with 19 percent and GB (18 percent) and ASA (8 percent). Other 579 NGOs provide 19 percent to the total share of active members in Bangladesh as illustrated in **pie chart 4.1**

[6] The outreach of MFIs has further increased to 9.434 million as of December, 1999 with a total disbursement of 92.44 billion Tk as reported by 533 MFIs (Source CDF Statistics Vol 9, December, 1999)

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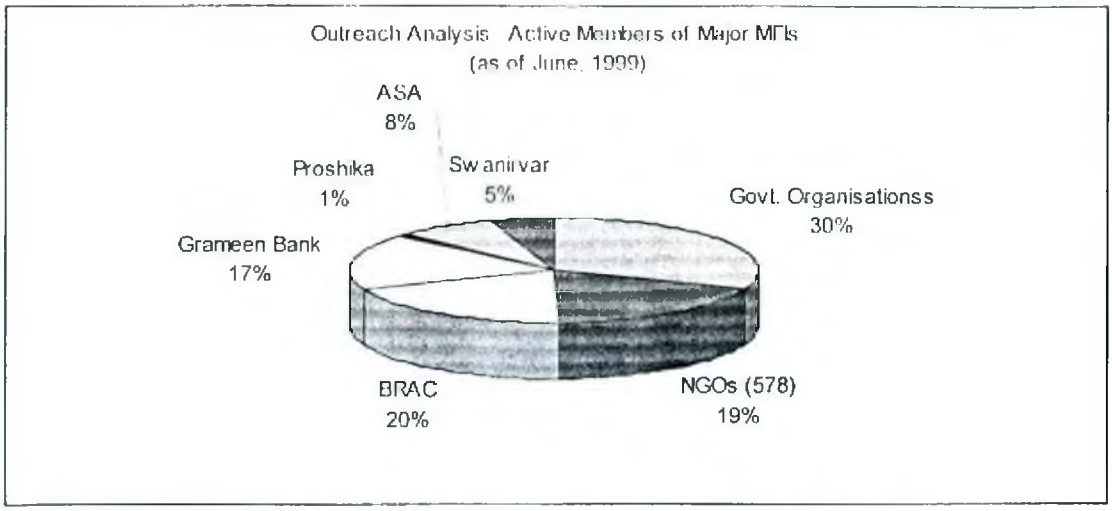
Pie 4.1



Data Source CDF Statistics Vol 8 Feb 2000 Annual Reports and others Ref Box 3.1

The latest available data on the number of borrowers for the last three years is given in the following table 4.3

Table 4.3 ; Number of borrowers by MFIs (1996-97 - 1998-99)

MFIs	*1996-97*	*1997-98*	*1998-99*
A. Government			1936,627
Ministry of Youth and Sports	211,010	2,344,755	286,250
BRDB			1650,377
B .GB		2,345,781	2,369,458
C. NGOs			
BRAC	1,898,000	2,253,000	2,710,574
Proshika	1,294,000	1,132,000	1,395.980
ASA	663,000	873,000	1.072,364
Swanirvar	682,000	667,000	687,750

Source: CDF Statistics (various volumes)

During 1993-94, the share of NGO-provided credit was 65 percent. In aggregate, credit provided by NGO emerged as the major source of institutional credit in the rural areas. NGOs disbursement increased to about four times from 1991 to 1994 as against the Banks disbursement which increased to two times only during the same period..

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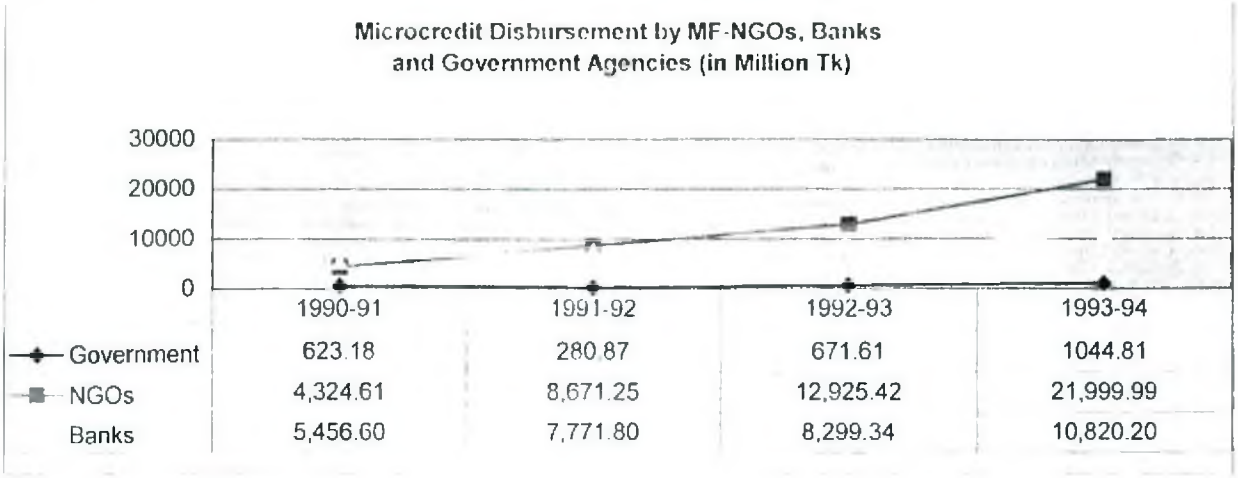
Graph 4.3



Data Source: CPD (1995)

In the public sector, the Bangladesh Rural Development Board (BRDB) is the largest public sector agency engaged in poverty alleviation. It has an outreach of over 4.00 million beneficiaries with farm and non-farm credit. A major institutional innovation in Bangladesh is the Palli Karma Sahayak Foundation (PKSF). It is an apex financing institution to assist and provide funds to promising NGOs in expanding their poverty targeted microcredit programmes. (Ahmed, 1999 b)

An analysis of available statistics indicates that both the formal and semiformal sectors have Substantial outreach. In the private sector, a forum of NGOs called Credit Development Forum (CDF) is collecting statistics on regular basis.

Box –4.1

Statistical Analysis of NGOs in Bangladesh
(524 NGOs , as of June, 1999)

- Active Membership (Nos)
  - Female 7,376,960
  - Male 1,326,287
  - 8,703,247
- Staff Strength (Nos)
  - **Total** **75,328**
  - In credit 30,509
- Outstanding borrowers (Nos) 6,196,287
- Savings (in million Taka) 5,951
- Commutative disbursement (million Taka) 77,352
- Outstanding Loan (million Taka) 15,934
- Sources of RLF (million Taka) 20,370.61

Members savings	4,813.24	(23.63)
PKSF	4,783.56	(23.48)
Local Bank Loan	2,342.85	(11.50)
International NGO	58.57	(00.29)
International donor	4,157.40	(20.41)
Service charge	2,337.99	(11.48)
BRAC	121.82	(0.60)
ASA	27.55	(0.13)
Proshika	40.92	(0.20)
Own fund	1,041.15	(5.11)
Others	645.55	(3.17)
Total		(100.00)

Figures in parentheses indicate percentages
Source: CDF Statistics; Volume 8, June, 1999
Conversion Rate: 1 US$ = 48.73 Bangladeshi Taka (BDT)

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CDF compiles, synthesises and publishes MFIs statistics twice a year as of June and December.

About 6.2 million borrowers are the current members who have the outstanding loans.(**Box – 4.1**) The NGOs disbursed Tk 77.35 billion or about US $ 1.55 billion. The bulk amount (94 percent) was disbursed in the rural areas.(ibid) The savings of the members, funding by PKSF and international donors contribute each about 20 percent to the total revolving fund.

The number of poor borrowers under the government and NGOs programmes increased from 1.45 million in 1990-91 to 3.28 million in 1993-94 .[7] The number of credit NGOs also increased from 40 in 1990-91 to more than 1000 in 1999. The largest NGOs[9] namely : (1) BRAC is operational in about 50,000 villages of all the 64 districts of the country; (2) ASA in 13542 villages of 61 Districts and (3) Proshika covers 7601 villages of 46 districts. The possibility of the presence of more than one NGO in the same village and overlap of members cannot be excluded. The GB of Bangladesh, a formal sector MFI, recognised globally started as an NGO in early 70s and later it became a specialised bank for rural poor since October, 1983. As of November 1999, GB has disbursed US $ 2,951.78 million to over 2.35 million poor (including 2.23 million female) living in 39,635 villages through 67,610 centres working under 1143 branches throughout the country[10].

4.3 Comparative Performance of major MFIs

4.3.1 Operational Features of Selected MFIs: ASA, BRAC and Grameen Bank

Both the approaches - credit only (minimalist) and credit plus (multisectoral) - are applied by the MFIs in Bangladesh using group based delivery mechanism to provide microcredit to the rural poor, particularly, rural women. (WB,1999) The credit delivery-recovery and savings mobilisation methods of the MFIs are of similar characteristics :

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[7] CIRDAP 1997, P 50
[8] CDF Statistics, June, 1999
[9] Detail analytical information on microfinance NGOs including ASA, BRAC, Proshika is given in the appendix A4.1 envisaging outreach and their institutional mechanism.
[10] GBDialogue 41, Jan 2000

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exclusive focus on the poor and women; service delivery through small groups; easy and simple delivery and recovery system; non-collateral lending (group liability/social collateral replaces formal material collateral); credit for any IGA chosen by group members; weekly repayments and maximum 50 weeks maturity; mandatory savings; simple documentation; transparency of financing activities; and training for group members and organizational staff.

There is no intrinsic problem with a programme targeting both the HCP and the moderate poor. However, where the needs of the different groups are different, it becomes more difficult to meet the needs of the HCP. There is currently a worldwide debate on poverty yardstick to identify the poorest. Many, including CGAP have tried but have bogged down on the methodological issue. To identify the poor, various MFIs in Bangladesh follow one or more of the following criteria:

The assessment using the criteria given in Box 4.2 is usually made through survey. Even though the discussions held with the representatives of a number of MFIs indicated their preference to select the poorest of the poor families on priority basis. But this does not translate into action due to the points indicated at 7 and 8 in the box. When the ability to repay loan and the confidence of the other group members comes into picture, the HCP get eliminated from MFIs. In the selection of Target Group (TG) , more or less same criteria is followed by the three MFIs (GB, ASA and BRAC) which include :Landless poor; Holding less than or up to 0.5 acre of land; Own earnings less than normal income from 1 acre of land; Selling manual labour to earn

Box : 4. 2 **The Criteria of Selecting Target Groups**

1. Families owning 0.5 acre or less of wet land in rural areas
2. In sub-urban and urban areas, the income arising from 1 Acre or less of wet land per family;
3. Family income less than Tk 2000 per month (this varied up to Tk 6000). BRDB selects
4. Housing Index covering the aspects of type of house, size of house, construction material used and type of roof;
5. Clothing;
6. Ability to have 3 meals a day with vegetables. Generally inability to have 2250 kilo Calories of intake per person per day for the poorest of the poor;
7. **Ability to repay the loan. This plays a major role in selection process. This eliminates the lowest stratum (HCP) of the poor.**
8. The group members should be confident of other prospective members in their group for formation of group for credit;
9. The families should not be member of other MFIs. This is basically to eliminate the overlapping or double financing resulting into over financing.

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livelihood ; Monthly income less than Tk 2000 (in case of BRAC Tk 3000); 18 -50 age limit (in case of ASA)

Selection of Area

ASA selects the area and location of its unit office carefully. It goes to such compact areas in which at least 1200 target clients could be reached. Therefore, it prefers densely populated area. It acquires office-cum residential premises for its unit office in the area. Unit manager and a few credit officers stay there. Location of the unit office is ideally selected, keeping in view easy access to commercial bank and postoffice. ASA is therefore also criticised many times for its 'road bias'. GB on the other hand, organises groups/centres also in remote areas. BRAC also organises groups in isolated areas but at manageable distance from their own office.

Collection of Savings

Savings mobilisation is a fundamental feature of all the three MFIs as summarised in table 4.4

Table 4.4 : Comparison of Saving Mobilisations.

ASA	BRAC	Grameen Bank
• General member's savings collected from each group member @ Tk 10 per week • Microenterprise and individual member savings deposited weekly @ Tk 20 minimum • Associate Member (members who are not taking any kind of loans)'s savings: for 5 years period no minimum or upper limit, deposited voluntarily, refundable/withdrawalable at any time • Long Term Savings for 5 years period – monthly deposit Tk 50, 100, 200, 400, 500 from borrower/non-borrower members • Term deposits – fixed deposits in multiple of Tk 1000 for at least a period of one year • ASA also collects 0.3 percent towards insurance (non-refundable) • Withdrawal or Refund : The request	• Regular weekly savings @ Tk 10 per week • Obligatory savings : 5percent towards Group Trust Fund ; 1 percent for insurance ; 2 percent of loan amount of Ist loan; 5 percent from 2nd loan; 10 percent from 3 rd loan and 15 percent from 4rth loan GB and ASA collect savings in weekly meetings and BRAC collects in fortnightly meeting	• The group members deposit the following types of savings: • Regular weekly savings (personal savings) at Tk 5 per week. Interest paid @ 8.5 percent . Refundable at any time • Centre Welfare Fund and Education Fund. As decided by the group • Obligatory savings - Tk 5 for loan upto Tk 1000 and 5percent an amount above Tk 1000 Only in Grameen, group members can become

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for withdrawal is received by credit officer. He ensures that saving balance is 15 percent of loans outstanding upto Tk 2000 and 25 percent in case of loans outstanding 2001 to 6000 is in the SB Account of the member. CO then recommends to Unit Manager who allows withdrawal.		shareholders of the GB Bank

Conditions for Sanction of Loan

The three MFIs insist on fulfillment of certain conditions before sanctioning of loan to any group member.

Table 4.5 : Comparison of Conditions for sanction of Loans

ASA	BRAC	GB
• Minimum 80 percent attendance in weekly meetings • Regular savings -at least for last 3 months • Regular payment of previous loan • Must have some know how about IGA to be undertaken • One loan per year	• Has to complete social awareness training • Regular attendance in weekly meetings • Clear knowledge of 18 promises • No housing loan to begin with • One member from each group would get loan at one time - allowed be getting by rotation	• Recognition of group by area Manager • Regular attendance in weekly meetings • Regular deposits - weekly savings • Has to complete six week clientele training

Processing of Loan Applications and Approval Process

Table 4.6 Comparison of Processing of Loan Applications/Approval Process

ASA	BRAC	GB
• Quickest method : Loan proposals are processed and sanctioned by CO (credi Officer) or UM (Unit Manager • Loan Disbursement schedule • Agreement with ASA • Individual and Group Gurantee	• Loan application in fortnightly meetings of Village Organisations (VOs) : PO recommends to Area Manager for sanction; Loan above Tk 12000 are sanctioned by Regional Manager • Loan agreement between BRAC and the individual member • Loan Disbursement schedule	• Loan applications collected in the centre meetings by Centre Manager – Processed in the GB branch - approved by Area office • Loan Disbursement schedule

Loan Products and Repayment Duration

Table 4.7 Comparison of Loan Products

ASA	BRAC	GB
• Small Loans : Tk 4000 (with annual increase of Tk 1000) ; Repayment : 45 weekly	• Loans mainly for productive activities (IGAs) eg	• General Loan : Tk 10,000 • Housing Loan : Tk 30,000 Standard housing, basic

instalments + 3 weeks grace • Microenterprise loans : Tk 10,000 (with annual increase of Tk 2000) ; Repayment : 46 weekly instalments + 3 weeks grace • Loan for sanitation, tubewells and disaster : Repayment : 45 weekly instalments + 3 weeks grace	poultry,fishery, livestock(dairy animals:goats), Sericulture etc; • Loan limits : - 1st loan Tk 4000 (invariably for IGA); - 2nd Loan Tk 6000 - 3rd Loan Tk 10,000	housing, pre-basic housing - Homestead purchase - Sanitary and latrine • Repayment in all the above cases is 45 to 50 weekly instalments

Loan Disbursement and Repayment Methodology

Table4.8 Comparison of Loan Disbursement and Repayment Methods

ASA	BRAC	GB
• Loan amount sanctioned to individual member, is disbursed at the Unit Office which is usually located in the village itself • Credit Officer collects repayment instalments from the members during weekly meetings	• Loan amount sanctioned, is disbursed to the member in BRAC's Area office or project office. • Repayment instalments are collected by Programme Organiser in the fortnightly meetings of Village Organisation	• Loans amount sanctioned is disbursed to the member in the GB. • Bank worker /centre manager collects repayment instalments in weekly meetings of the centre

Monitoring of End Use of Microcredit

All the three organisations ensure close monitoring and follow up through frequent visits of field workers to the purpose. The monitoring mechanisms of all the three MFIs is summarised below:

Table4.9 : Comparison of Monitoring Mechanism

ASA	BRAC	GB
• More effective supervision through locally based unit offices. The Credot Officer visits 3 groups daily. Thus covers 18 groups in 6 days ie Saturday to Sunday (Friday off) and contacts 360 members (20 per group). • ASA does not impart any skill training (unlike BRAC) . Therefore , there are chances of some mis-utilisation. But ASA appears to be not so worried about it till repayment is received on due dates.	• The Programme Organiser (a field worker of BRAC) visits village at the time of meeting of VO. He collects information from members about utilisation of loan disbursed. • It provides activity specific training to the loanee which ensures proper utilisation of loans • Frequent visits to the members houses also enables the field worker to understand problems in project implementation • It provides necessary inputs : backward and forward linkages and arranges for marketing of the products through its own outlets -Aarong.	• GB ensures close monitoring through visits of Centre Manager on the dates of centre meetings. After interacting with the group members, he gets the feed back on utilisation of loan disbursed to the members. • GB is not providing activity specific/technical training to its loanee members. • Frequent visits to the members houses also enables the Bank Worker/Centre Manger to understand problems in project implementation

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Ensuring Repayments

The three MFIs have a repayment performance between 95 percent - 100 percent (cumulative). Various ingredients including : selection of borrowers; providing services beyond credit; constant links; peer pressure bring about the remarkable rate of recovery. According to ASA " the potential borrowers must have some repayment capacity which *is very essential to ensure smooth and continuous operation of the IGAs and their regular repayment of the amount borrowed from ASA."* Different approaches followed by these MFIs are summarised below:

Table 4.10 : Comparison of Repayment System

ASA	BRAC	GB
• ASA sensitivity to default is such that if a member misses a repayment she can count on receiving a visit from her CO the same day. Deliquency is taken quite seriously by COs and the Unit Managers alike • For repayment of overdues, the staff of ASA take the help of clients, other family relatives and neighbourers along with the help of local elite. • ASA presumes that default in repayment arises as a result of communication problem and absence of motivation by Credit Officers, • ASA also takes help of police informally in case of overdue • ASA has constituted a 6 member committee headed by a General Manager to deal with bad debt. • In some cases local youths are engaged to recover bad debts on payment of commission of 25 percent of recovery amount.	• Credit plus services provided by BRAC help in recovering cent percent amount from borrowers • BRAC does not write off any loan as it feels writing off would give a wrong signal to the borrowers at large. Similarly it does not transfer the loan to successor on the death of the borrower.	• Simple repayment mechanism which is understood by the borrowers such as : - One year loan - Loan for IGAs - Equal weekly instalments - Repayment starts one week after the loan - Interest rate of 20 percent - Repayment amounts to 2 percent of the total loan per week for 50 weeks • GB never uses judiciary in seeking repayment of a loan. As it is assumed that they know how to do business, they do not involve in legal hurdles • Experience of GB with bad debts is less than 1 percent. Even then GB does not conclude that defaulting borrower is a bad person. Bad debts of this dimension are considered by GB as a cost of doing business. GB takes it as a constant reminder of what they need to improve in order to succeed.

Substitution of Collateral

The loans provided by these MFIs are generally collateral free. However, the process itself envisages an in-built mechanism for substitution of the accepted norms of collateral. It is evident from the following:

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(i) The credit plus services provided by these institutions, particularly GB and BRAC coupled with empirical outreach of their staff to the rural mass implies a feeling of belongingness to the loanee members in these institutions which ethically bind them to repay their loans in time and this could be considered as an effective tool of substituting collateral for the loans provided by these institutions.

(ii) In case of natural calamities like cyclone , flood which are a regular phenomena in Bangladesh, the staff of these institutions particularly those of GB and BRAC engage themselves in relief operations suspending all credit operations. This kind of humanitarian activities build up confidence of the members in these MFIs which have an indirect bearing on the repayment ethics of the borrower.

(iii) Initially, all these MFIs provide meagre amount of loan. The next loan which is generally higher than the first one, is contingent upon timely repayment of the earlier loan. Since the member's requirements of loans are generally higher, they are very particular against committing default in repayment so that they could avail the next loan. This system also acts as an in-built collateral substitution.

(iv) In all these MFIs, the loan is provided on the recommendation of the group leaders. In many cases other group member's guarantee is far more effective than legal pressure. This works as a social collateral. Once a member becomes a defaulter, the credibility of the group is threatened and other members are deprived of loan. Therefore, peer pressure is exercised on the defaulter member to repay the dues. No member would like to be singled out. Thus group works as a team with mutual support.

(v) ASA,BRAC and GB are fully aware that repayment does not necessarily come out of IGAs. They, therefore do not insist on qualitative aspect of loan utilisation. The GB has prescribed 16 decisions for the members to practice . Prof. Yunus says that these are the social mandate of the Bank. The members have been made to memorise these decisions. The belief is if she recites and remembers the 16 decisions, she will try to practice also. During field visits, some members were observed practicing the decisions. For example, some have planted trees, some have constructed good houses, some have built tube wells and almost all children are sent to school.

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Like Grameen, BRAC has prescribed 18 promises as social mandate, 8 of which are common with GB's 16 decisions. When the groups start their weekly meeting they start reciting promises/decisions first. Certain other measures followed by these MFIs also demonstrate substitution of collateral are enumerated in **Table 4.11**

Table 4.11 : Substitution of Collateral

ASA	BRAC	GB
• While taking a loan, the signature of the member's family head as a guarantor and two other group members as witnesses are needed on the loan application form. This provides a collateral cover for the loan. • Members have to deposit 0.3 percent of the loan which forms an insurance fund to take care of default, death of a member and complete damage of loan scheme • From the second loan onward, members must have savings equivalent to at least 15 5 of the actual loan amount. This amount is not refundable until a member leaves ASA. This is also a sort of collateral situation • ASA 's credit operations are highly supervised leaving no scope for default	• Loans are sanctioned with consensus from other members of the group which generates peer pressure for repayment • The loanee has to sign a guarantee bond affixed with requisite non-judicial stamp which is required to be witnessed by the President, Secretary and Cashier of the Village Organisation (VOs). This bond acts as a substitution of collateral • Besides personal savings, members have to provide 5 percent of loan amount which forms part of her personal savings fund. The fund thus created serves as a sort of collateral of the loan • In case of Micro Enterprise Lending Assistance (MELA), there is a formal collateral by way of mortgage of the entire scheme alongwith the land.	• Loans are sanctioned in a cycle of 2 + 2 + 1 to the group members and each loan is distributed with the group gurantee. The system generates peer pressure for timely repayment of the instalments • Besides weekly personal savings, a member has to provide 5 percent of her loan amount as group tax which forms the Group Fund. This fund provides a cover towards the loan sanctioned by the bank and acts as a substitute to collateral • The fact that existing group members are unwilling towards entry of new members who do not have capacity to repay speaks of an in-built collateral in the system In respect of house building loan, husband has to provide a registered Will/Consent in favour his wife (loan member) for the piece of land on which house has to be built. Although the land is not required to be mortgaged, provision of a Will in favour of the loance member acts as a collateral to such loan.

All the three MFIs attribute default in repayment due to two main reasons viz; selection of wrong member and lack of communication skills on the part of the field officer. If the wrong selection is made at the outset, default will automatically arise. Thus constant rapport and peer pressure acts as social collateral which replaces formal material collateral in all cases. Similarly, genuine concern for the borrower in the shape of providing : (a) credit plus service and (b) instant relief measures in the case of natural calamities has created a niche in the heart of borrowers which makes usual collateral redundant and unwarranted.

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4.3.2 Credit Profile of Major MFIs

ASA is the fastest growing MFI in Bangladesh. Over the past five years its membership increased annually at the rate of about 39 percent which is more than ten times to that of GB and about twice to that of BRAC and thrice to that of Proshika. Grameen Bank is giving more emphasis on its consolidation rather expansion, as substantial number (about 30 percent plus) of branches are not self sustainable. ASA and BRAC's credit programmes are 100 percent self sustainable. A comparative analysis of the membership of these MFIs may be seen in **Table 4.** 12

Table 4.12 Comparative Analysis of MFIs Membership

	1995 Dec	1996 Dec	1997 Dec	1998 Dec	1999 Dec	Percent Change[11]	Annual[12] Change
GB	-	2059510	2272503	2367947	2357083	14.45	3.61
ASA	404000	562000	806000	894000	1179000	192.83	38.57
BRAC	1510000	1840000	20110000	24840000	30570000	102.45	20.49
Proshika	842000	1060000	1232000	1243000	1453000	72.6	14.52

- Information not available Data Sources : Various volumes of CDF Statistics.

Per Capita Savings

The saving policies of all these MFIs are similar. The annual increase in the average per capita savings is around 15 percent plus with marginal differences among these MFIs. Per capita savings of GB in terms of amount is about four times greater than ASA and BRAC. The comparative analysis of per capita savings of these MFIs over past 5 years is given in **Table 4.13**

Table 4. 13 Comparative Analysis of MFIs Per Capita Savings

	1995 Dec	1996 Dec	1997 Dec	1998 Dec	1999 Dec	Percent Change	Annual Change
GB	-	2552	2902	3439	4104	60.82	15.21
ASA	609	790	896	1209	1076	76.68	15.34
BRAC	530.46	641.84	870.21	900.56	949.62	79.02	15.80
Proshika	-	-	-	379	500	31.93	15.96

- Information not available. Data Sources : Various volumes of CDF Statistics. Further details have been synthesised in Appendix : IV

[11] Percent Change is calculated by the change between first and last year's values
[12] Annual Change is calculated by dividing the value of percent change with the number of years

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Per Capita Loan Disbursement

GB's per capita loan disbursement is more than three times higher than that of ASA and BRAC and about seven times to that of Proshika. On the other hand the annual increase in per capita loan disbursement of GBis the lowest and Proshika is the highest among the four MFIs. The average annual increase in the per capita loan disbursement of ASA is the lowest among these MFIs. It is probably due to the reason that ASA has given more emphasis on expansion which is obvious from its highest rate of average increase of membership (being about 38.6 percent as against just 3.6 percent in case of GB as it may be seen in the membership table given above) . A comparative analysis of MFIs loan disbursement is given in the following **Table 4.14**

Table 4.14 Comparative Analysis of MFIs Loan Disbursement

	1995	1996	1997	1998	1999	Percent Change	Annual Change
GB	-	34505	38733	45657	52622	52.51	13.13
ASA	7220	7810	9011	15167	15527	115.06	23.01
BRAC	6370	8002	10744	12059	13343	109.46	21.89
Proshika	2063	2821	4388	6585	7780	277.1	55.42

- Information not available. Data Sources : Various volumes of CDF Statistics. Further details have been synthesised in Appendix : IV

Per capita Outstanding

The loan disbursement and outstanding has a positive correlation. The rate of average increase per annum of per capita amount outstanding is more in Proshika followed by ASA. The GB has shown negative value. Due to multiple loan policy, the GBborrowers have more per capita outstanding amount which is almost twice to that of Proshika. **Table 4.15** provides a summary of comparative analysis of per capita outstanding.

Table 4.15 Comparative Analysis of MFIs Per Capita Outstanding

	1995 Dec	1996 Dec	1997 Dec	1998 Dec	1999 Dec	Percent Change	Annual Change
GB		5678	5997	6570	5653	-0.44	-0.03
ASA	1502	1671	1944	2481	3120	107.72	21.54

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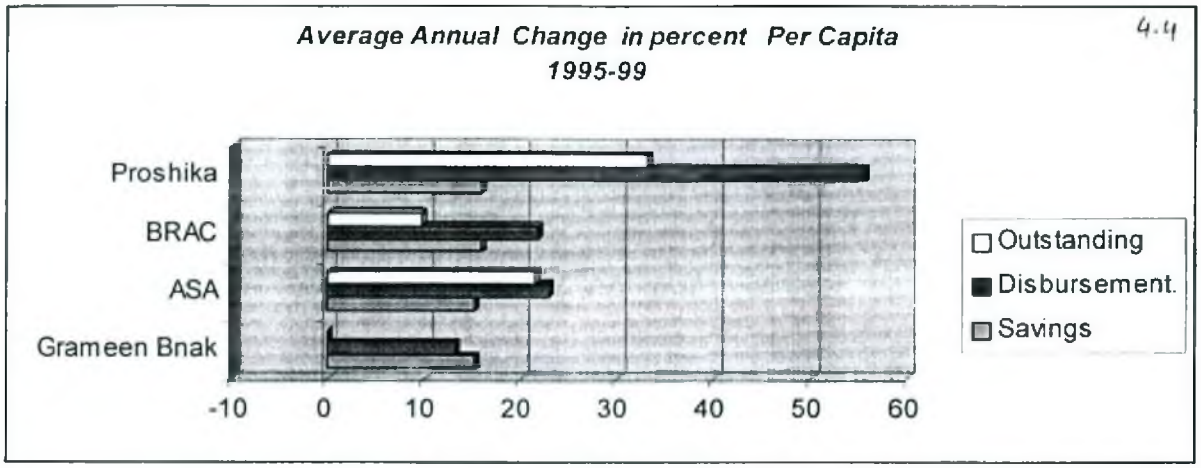
BRAC	1474	1664	1832	1981	2200	49.25	9.85
Proshika	893	1111	1697	2155	2372	165.73	33.15

On the basis of financial parameters change over past five years data, the annual average change in percent per capita of the four MFIs is shown in the **Graph** 4.4

Graph 4.4



4.3.3 Comparative analysis of Income and Operating Cost

Operating cost per borrower of GB (Tk 561) is twice to that of ASA (Tk 266) while it is Tk 307 for BRAC. The number of borrowers per staff is about 3 for BRAC , 5.8 for ASA and 5.4 for GB. Due to low salary structure, staff cost per borrower is low in BRAC (Tk 207) and ASA (Tk 217), while it is almost doubled (Tk 466) for GB. Interest earning per borrower is highest for GB being Tk 1157 followed by Tk 592 for BRAC and Tk 588 for ASA. Table 4. 16 provides a summary of comparative analysis on selected parameters of ASA, BARC and GB (GB).

Table : 4.16 Income, Operating Cost and Selected Performance Parameters (1998)

	ASA	BARC	GB
Income (million Tk)			
1 Interest on Loans	470	1244	2660
2 Bank interest	16	45	280
3 Other Income	18	15	82
4 Total income (1+2+3)	504	1304	2274
Less			

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5 Loan loss Provision	43	255	747
6 Cost of Capital (at 6 percent)[13]	116.34	272.34	803.76
7 Total op.income (4-5-6)	344.66	776.66	723.24
Operational Cost (million Tk)			
8 Salaries & benefit	174	436	1072
9 Utilities & stationary	24	50	43
10 Rent & Depriciation	-	30	53
11 Other expenses	15	129	122
12 Total Op. Cost	213	645	1290
13 Net profit (7-12)	131.66	131.66	-566.76
14 Net profit less other income	113.66	116.66	-648.76
Performance parameters			
15 Borrower members (000)	800	2100	2300
16 No of Loans (000)	864.2	2003	5504
17 Total staff	4656	6190	12499
18 Staff per 1000 borrower	5.82	2.95	5.43
19 Av. Staff salary (Tk/yr)	37371.1	70436.2	85766.9
20 Non-Salary cost per staff	8376.29	33764.1	17441.4
21 Operating Cost per Borrower (12/15)	266	307	561
22 Staff cost per borrowerTk/yr (8/15)	217	207	466
23 Av. Size of loan/borrower (Tk)	5220	3856	10000
24 Outstanding loan per borrower (Tk)	2424	2161	5824
Interest earning per borrower (Tk/yr)	587.5	592	1157

Source : Pankaj S. Jain, Maturing of Micro-credit Movement p21 (undated)

4.3.4 Focus on Women

The outreach of major MFIs is focused on women, the reasons for the same are conceived differently. ASA focuses only on women as members of its groups, the attributes of their reasons are : (1) the availability of women during the day time when their staff visits the villages. ASA is not much concerned that the loan is utilised by the women herself. In many instances[14] it was found that the loan has been used by the male member of the family, taking up some IGA; (2) the women are perceived as better resource managers by ASA ; (3) ASA insists on guarantee of the husband for the loan given to women for two reasons : (a) the rate of divorce is high which increases the problem of women who is borrower so her husband bears the responsibility of repayment as guarantor; (b) marketing and cash money is usually handled by her husband. ASA , in principle does not target unmarried women, because they may move after their marriage.

[13] For the purpose of comparison, a similar cost of capital @ 6 percent is assumed.In practice, however, the cost of capital differs from each other

[14] Some instance observed during field visits are given under ASA in Appendix A4.1

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According to GB, women go through the worst part of the poverty and have to struggle hard to get out of it. GBfurther believes and its experience also proves that *money going through woman in a household brought more benefits to the household compared to a loan given to a man.* When the women brings in income, the immediate beneficiaries are children, who are the future citizens.

BRAC 's goal is to transform the poor women from *passive recipients to active producers* BRAC believes that a women is more socially conscious and dedicated to her family's welfare. Traditionally, women have proved to be better managers, capable of managing small amounts efficiently. They are also regular in saving and repayment of loans. One of the BRAC studies indicates that in case of women borrowers, about 1/3rd were handling the loan and enterprises themselves another 1/3rd women handled the amount and managed the activity jointly with their husbands while in the remaining 1/3rd cases, the loan amount was entirely utilised by their husbands.

A study of 275 loans (22 of these to men) across four organisations (BRAC : 106 women + 22 men; GB : 53; TMSS : 39 and RD12: 55) was conducted by Goetz (1996) . The degree of women's control over loans (n = 2530 is summarised as follows:

Full control : Full control over the entire production process	=	17.8 percent
Significant : Control over output except marketing eg mich cow	=	19.4
Partial : provision of labour but loss of managerial control eg paddy husking	=	24.1
Very limited : minimum input to production process	=	17.0
No involvement eg riksha, carpentary	=	21.7

It indicates that about one fifth of womwn have partial and one fourth have no inolvement in the use of loansThe issue of transfer of loan control noticed by Rahman's (1986) study of 151 loans to women in GB found that 77 percent of women were using up to three quarters of their loans themselves while 12 percent surrendered the entire loan to their husbands or other male guardians. In case Actionaid study[15], loan use pattern suggest that about 50 percent of loans taken by women are used for

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men's productive activities. According to Assaduzzaman (1999), only about 60 percent of members are from eligible target groups. Some professionals plea that NGOs have become business organisations capitalising on poverty and helplessness of millions of poor people[16].

In all the cases, where women have been targeted as borrowers for microfinance, the benefits of increased income generation have accrued to the families. Also in majority of the cases, women's awareness levels and ability to find solutions to their problems alongwith confidence levels have substantially gone up. This has been due to the fact that she has been recognised as the channel for accessing credit.

The empowerment in the real sense focuses on helping people to help themselves. It is a process of enhancing the feeling of self efficacy. In order to ensure empowerment of rural poor women, the access to credit itself is not sufficient. ASA, BRAC and Grameen are fully conscious of the fact that *microcredit is more effective in combination with other social interventions.* MFIs programme in reaching the women is impressive in terms of access of credit to the women. Control over loan use is a second generation problem. Gradual empowerment and access to credit has brought about a positive and qualitative shift in the life of women in Bangladesh.

4.3.5 Dynamics of Forming Groups

While forming the groups, MFI's field staff takes into consideration various factors such as addiction to anti-social activities, lack of cooperation from family members and migrating tendency. Decision to allow her to become a member is firmed up after satisfying that negative factors do not come in the way of according membership. After forming a group, be it ASA, BRAC or GB, there is regular contact with the borrower through weekly or monthly visits to borrower's house to ensure that their social and economic situations are improving , they can repay the loans and the whole family is benefiting as a result of her taking loan from MFI

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[15] White(1991) : The study is based on 140 loans

[16] Retrieved from an article titled , *Questions Surrounding NGOs - Part II,* Md Nazrul Islam, Published in the daily newspaper Th Bangladesh Observer of 23 September,2000

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Vacancy caused in the group as a result of migration or withdrawal of membership (known as Broken Group or Bhanga Group) is filled within a period of 3 months. However, group continues to function as usual despite such vacancy. The functioning of the groups formed by these MFIs is orderly and systematic. The group meetings are conduced in a business like manner with a prayer or recitation of 16 decisions in case of GB and 18 promises in case of BRAC followed by normal business (collection of savings, repayment of loans and discussions on other matters). In Grameen, the group meeting start and end with salutation. In the case of ASA they do not have promises or decisions for its members to recite.

These decisions or promises mainly relate to the social aspects like family planning, children's education, not taking/giving dowry , environment, hygiene, no discrimination between boy and girl child etc. The attendance of the members are mostly regular. Absences are allowed with the oral permission of the leader of the group or the group chief. However, savings and loan repayments have to be arranged even when the member is absent in a particular meeting

All the monetary transactions of the group members are undertaken by MFIs representative. The centre manager collects the money and deposits the same into the branch. Neither the group members nor the elected members of the group are allowed to collect or remit the cash. Loan disbursements are also made by the respective branch. In case of ASA, Unit Manger and 3-4 credit officers (CO) stay at unit office in the village. Each CO is required to form 18 groups of 20-30 women. The Unit Manager and Credit Officers contact people in the village and explain them ASA's programme and organise women's groups of 20-30 members. ASA prefers women groups. At the end of June, 1999, out of total 1,072,364 member, the women members were 994,151 (92.7 percent) . ASA field functionary ie CO visits the village and moots the idea of forming a group and at the same time undertakes a socio-economic survey of the area. The intending poor women are subjected to a screening process and only those who satisfy the criteria of ASA are allowed as group members. The process of forming a group takes a minimum period of 6 weeks and goes up to a maximum of 12 weeks. A minimum of four visits are

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required to be made by the field functionary to form a group. Group meetings are held weekly, each elects a cashier and a president as group leader.

GB prefers to have only women groups , although there are a few men groups. Out of the total membership of 2,369,458 as on June, 1999, the number of women members was 2,245,762 (94.8 percent). There are no mixed groups of women and men. The bank follows its famous model of having a small compact group of 5 members each and eight such groups forming into a centre. These centres are linked to branches of the bank. Each branch will have around 60 centres. In order to form a new group, the field functionary of the bank visits the village leader and other elders and introduces the idea of forming groups. At the same time socio-economic survey of the village is also undertaken by the centre manager of GB.

After the survey, the centre manager identifies the target group. The poor women among the target group and those who are in need of loan have to bring in four other like minded women belonging to the same area and are well known to her. Then the centre manager undertakes a detail screening process to check whether they satisfy the norms adopted by the bank viz families having less than or equal to 0.5 acre of land or monthly family income less than Tk 2000. The process of formation of a centre comprising eight groups may generally take a time of three months to six months. The centre house (shed) is constructed with funds raised by members of the groups. Weekly meetings are held in the centre house. Each group is headed by a Chairperson. One of the chairpersons among the eight groups is elected as Centre Chief. She conducts weekly meetings in presence of Centre Manager. Each Centre Manager is responsible for 25-30 centres.

BRAC promotes groups in the form of Village Organisations (VOs) with 30 to 40 members consisting of 6 to 8 small compact groups of 5 members each. As on March 1999, there were 77, 292 VOs with a membership of 2.86 million and 96 percent of them being women members. BRAC has an ambitious target to cover 3.5 million VOs with 413 Area Offices by the end of 2000. The field functionary is called Programme Organiser (PO) and is responsible for 16 VOs. In order to form groups, a preliminary survey of the village is conducted by the respective PO of BRAC.

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After the completion of the survey, and identifying the target group, weekly meetings are held where the intending members are given training for six weeks (one day per week). They are familiarised about the 18 promises of BRAC, terms and conditions and norms of groups etc. Savings are collected in these meetings. After the sixth meeting the group starts regular functioning and the group also elects two members as its leaders. Till the sixth week members only save. Loans are disbursed after this period. Although there are weekly meetings, the money transactions are done once in a fortnight[17] ie alternate weekly meetings. Other social and general issues are discussed in the remaining weekly meetings. While the savings and repayments are collected in the VO meetings, the members have to go to Area Office to receive loan amount. Each VO consists of about 8 groups of 5 members each. BRAC Area office controls 150-180 VOs. It supervises both , Rural Development Programme (RDP) including microfinance and 40 capsule Non Formal Education Programme (NFEP). POs generally stay in the quarters provided at Area Office premises.

In all the three MFIs, their field workers establish contacts with each group member through group meetings. Methods of holding meetings differ following a fixed pattern of seating arrangements which also vary among the three MFIs as summarised below:

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ASA: 4 -5 small 5 member groups are merged to form "Samiti". Credit Official (CO) conducts the meeting of this Samiti on stipulated date and time every week.

Grameen: Centre constituted by 8 small groups of 5 members each. Meetings are held on stipulated date and time in the centre house. Centre meeting starts with Prayer and 16 decisions. Later roll call is taken by the Centre Chief followed by collection of savings by Centre Manager.

BRAC: A Village Organisation is constituted of 8 small groups. Meeting is held on stipulated date and time. VO meeting starts with 18 promises recited by all members. Roll call is taken. Collection of savings as well as decisions on loan applications are

[17] as mentioned in earlier foot note, BRAC has now changed its policy for holding such meetings on weekly basis instead of fortnightly basis since the beginning of the year of 2000.

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taken during the meetings. After this , usually members are given inputs on social awareness, rights and responsibilities etc.

It is difficult and complicated to work out the exact cost of forming groups incurred by an MFI. Unlike India, where groups are first evolved and then linked to financial agencies, in Bangladesh, the MFIs themselves organise mainly for the purpose of providing credit. Therefore in case of Bangladesh, it is difficult to bifurcate the cost of forming groups. However, an attempt has been made in this section for the purpose of comparison among three MFIs. The cost of forming groups mainly consists of cost of staff (field functionaries) time. At the time of survey, initially, the field staff spend full time of two to four days for each group. Therefore, the field functionaries undertake the group forming work in addition to their ongoing assignment with the normal groups. The cost of forming groups can be worked out by taking the number of man days involved. In both the cases of GB and BRAC , 6 man days are required to form a centre consisting of 8 small groups of five members each and a group of 20-25 members respectively.

Taking into account the average salary of the field functionaries of these MFIs, the cost works out as under[18]:

Particulars	ASA	GB	BRAC
No of man days required to form group/centre	4	6	6
Average salary of a field functionary (in Tk)	3000	5000	3500
Average cost of formation of group/centre	600	1500	1050

It has been observed that the target approach of the MFIs has serious limitations in the true sense of including HCP for forming groups. MFIs are not in hurry to form groups. As a matter of fact, GB is now in the process of *deepening the credit and not widening the credit* and it is hastening slowly in new group formation. More than forming new groups, MFIs are interested in keeping the already formed groups afloat.

[18] *Note : The cost of the survey, which normally ranges from 15 days to 2 months during which the staff visit a number of times in addition to their normal duties has not been taken into consideration for working out the above cost. Further, the entire cost of group formation is born by the respective MFIs .The cost does not include the overhead costs of the organisation. Neither prospective members expect nor MFIs spends anything on small items like tea/snaks while the process of group formation is on. In view of the five working days only 20 working days are taken per month*

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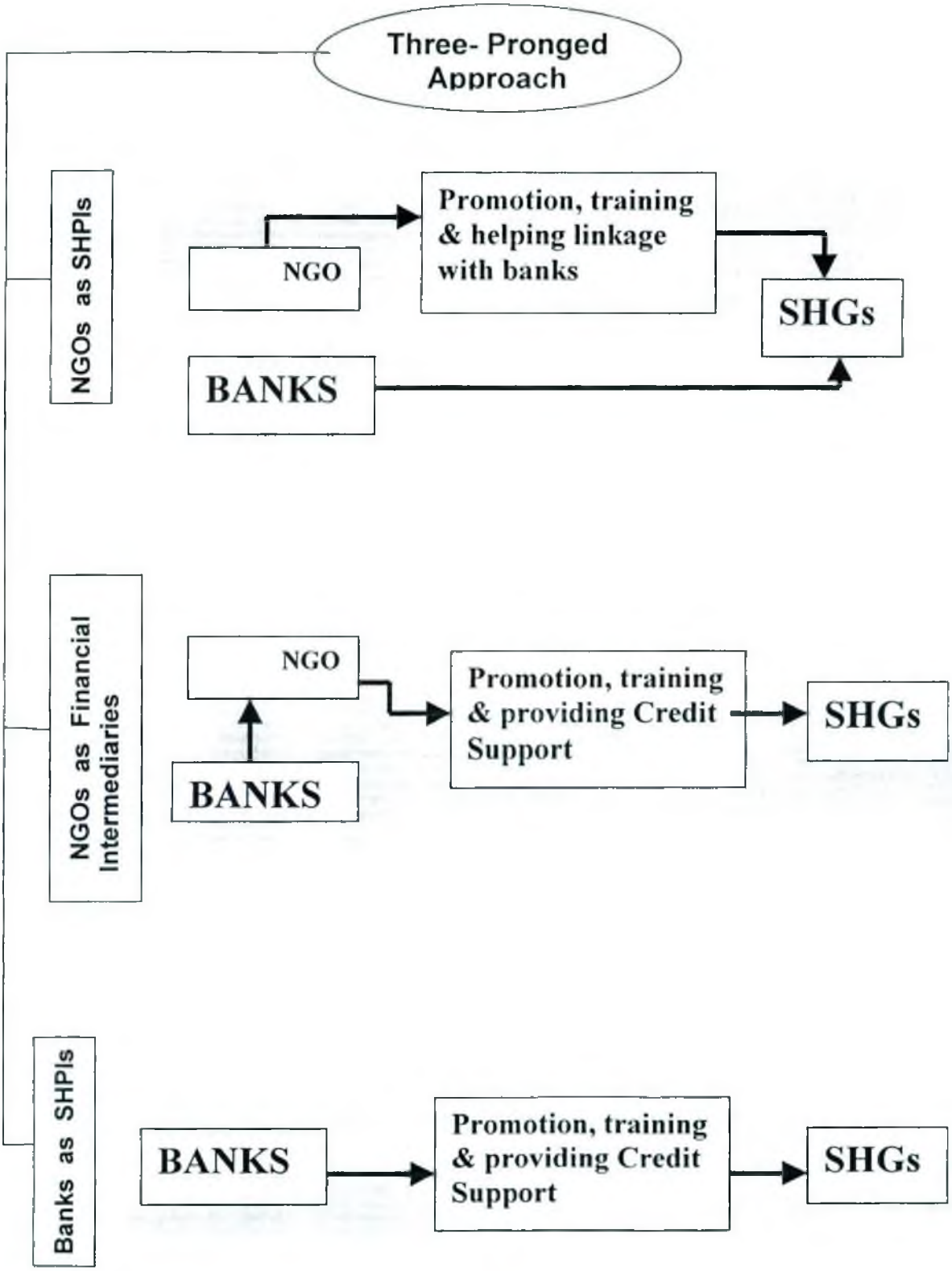
Fig : 4.1

SHG Model



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In all the models of Self Help Groups (SHGs) promoted by National Bank for Agricultural and Rural Development (NABARD), India, (Three-pronged approach is illustrated in **Fig. 4.1,** the essential features are: weekly meetings, compulsory savings by the members, decision making among the members, rotation of leadership, maintaining books of accounts of the groups and recording the minutes of the meetings. The decisions regarding to whom the loan should be given, repayment period and rate of interest are decided by the SHG members themselves where as such decisions are to be vetted by the representatives of the MFIs in Bangladesh context. In SHG model, it is ensured that all the members are well conversant in transacting banking business over a period of six months. However, in the case of groups promoted by the Indian banks, presence of NGOs or other suitable intermediary is required to constantly monitor the functioning of the groups and to provide the much needed credit plus services like health, education, legal awareness, environmental problems etc.

4.4 MFIs and Poverty

A recent study[19] conducted by BIDS/World Bank examined the impact of the credit programmes of GB, BRAC and RD-12 (of BRDB) on the basis of household surveys in 87 randomly selected villages. The overall results suggest positive impact on reducing poverty in the project areas as given in **Table 4.17.** The incidence of moderate poverty is reported to be lower in GB (62 percent in programme compared to 72 percent in the control villages) and BRDB (64 percent in programme compared to 67 percent in the control villages). The matter of concern, is that the perpetuation of the large majority (more than 60 percent) in these villages are in poverty situation despite the

[19] Latif, M. A.; Khandker S.,R. and Khan ,Z,H (1996), *Credit Prtogrammes for the Poor : Proceedings of the Workshop, March 19-21, Dhaka, Bangladesh,* (Ed), Bangladesh Institute of Development Studies and the World Bank, Dhaka 1996 in two volumes

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implementation of the programmes. This reveals that the programmes of these MFIs have a narrow coverage within the programme area and (or) these MFIs have not been able to adequately address the dynamics of the prevailing poverty (CPD, 1995).

Table: 4.17 Impact of GB, BRAC and RD-12 Programmes on Poverty Incidence

Incidence of poverty	GB	BRAC	RD-12
Moderate Poverty (percent)			
Participants	62	70	64
Non-Participants	72	67	67
Extreme Poverty[20] (percent)			
Participants	10	14	-
Non-Participants	17	16	-
Severity of Poverty			
Participants	Less	-	Less
Non-Participants		-	-
Annual Reduction Rate of Moderate Poverty (percent)	4	1	6

Moderate Poverty refers to a minimum intake of 2121 k.cal.per capita per day while extreme poverty is set at below 1805 k.cal/capita/day. Source : Khandker and Chowdhury (1995)

Analysis of regionwise poverty situation and corresponding outreach of MFIs (**Table 4.18**) has provided fairly enough indication and evidence that there exists substantial mistargeting on the part of MFIs. It proceeds towards an interesting clue proving the hypothesis that MFIs have not been able to focus or outreach on poor households appropriately throughout the country. It is found that where there is greater number of poor households, there exist limited outreach of MFIs. This is the real issue which is a major cause of the non-availability of MFIs in other terms exclusion of HCP from the participation in the ongoing MFIs programme. The locational analysis of the branches of MFIs are elaborated in the next chapter

[20] Extreme Poverty as explained in chapter 1 refers to the HCP

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Table 4.18 : MFIs and Poverty : An Outreach Analysis

Sl #	Region (1)	Households Total (2)	Households Poor (3)	percent Of Poor HH (4)	No of MFI[21]'s members (5)	Variations (6) = (3) - (5)	percent outreach to Poor HH (7)
1	Barisal	1067630	508375	47.62	122517	385858	24.10
2	Bogra	657900	293865	44.67	72377	221488	24.63
3	Chittagong	1195594	470858	39.38	80169	390689	17.03
4	Comilla	1535468	666094	43.38	37566	628528	5.64
5	Dhaka	2661520	1090513	40.97		1090513	0.00 **
6	Dinajpur	849534	319915	37.66	111611	208304	34.89
7	Faridpur	1077978	532649	49.41	60025	472624	11.27
8	Jamalpur	603685	287153	47.57	33136	254017	11.54
9	Jessore	1042669	411369	39.45	125128	286241	30.42
10	Khulna	922902	352781	38.23	159035	193746	45.08
11	Kishoreganj	1032323	397050	38.46	9269	387781	2.33
12	Kushtia	673992	232234	34.46	48793	183441	21.01
13	Mymensingh	846453	443217	52.36	30222	412995	6.82
14	Noakhali	872708	392453	44.97	31233	361220	7.96
15	Pabna	849732	355111	41.79	96476	258635	27.17
16	Patuakhali	536686	209433	39.02	10539	198894	5.03
17	Rajshahi	1381904	528910	38.27	41452	487458	7.84
18	Rangpur	1557306	773143	49.65	70751	702392	9.15
19	Sylhet	1339274	499002	37.26	16399	482603	3.29
20	Tangail	694258	293198	42.85	195789	97409	66.78
21	Chit. Hill Tract	247008	92960	37.63			

Data Source : Synthesis by the author from CIRDAP-BBS Poverty Monitoring Survey, April-May, 1999 and the GB statement of number of members as of March 2000.

** Note:
The number of members of MFIs in Dhaka is not given. It will be confusing and misleading as a number of MFIs have their head-offices located in Dhaka. Therefore in order to avoid any possible overlapping, outreach in Dhaka is not given.

[21] MFIs members are the members of 521 microfinance NGOs (as of June 1999), excluding ASA, BRAC and GB.

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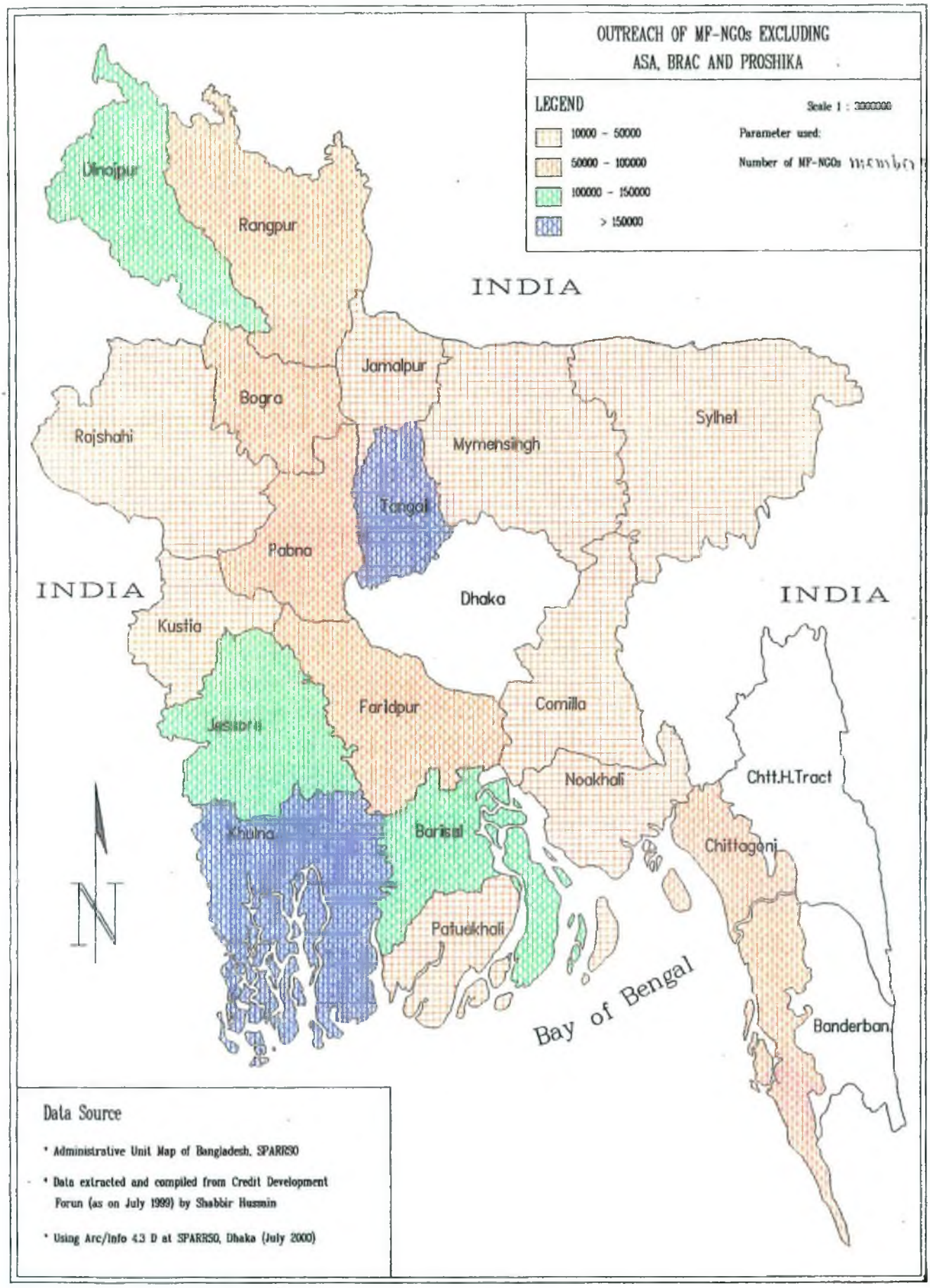

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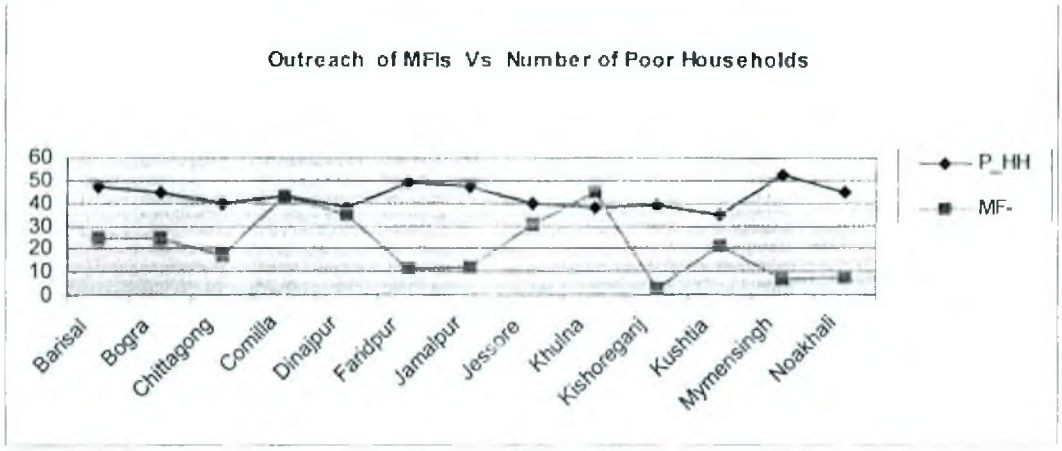
Graph4.5



Data Source : Synthesis by the author from CIRDAP-BBS Poverty Monitoring Survey, April-May, 1999 and the GB statement of number of members as of March 2000

As it may be seen in **Graph 4.5**, the targeting of other MFIs trend in Barisal, Bogra, Chittagong and Comilla are appropriate and better than GB targeting. It may be mentioned that data for Dhaka region was not truly representative due to possible overlapping as many head offices of MFIs are located in Dhaka. Therefore, data on Dhaka is not included in the above analysis. The corresponding Map 4.1 showing regionwise outreach of Microfinance NGOs (MF-NGOs) excluding ASA, Proshika and BRAC is given as **Map 4.1** The outreach of MF-NGOs while compared with the poverty map developed in chapter 1 (**Map – 1.1**) provide similar evidence of mistargeting.

4.5 Some Critical Aspects of MFIs

MFIs claim that they are tackling poverty of those who are the people " Below the Poverty Line". But it must be remembered what the ***Nobel Laureate Amartya Sen*** *(1981) said about the poverty index: that one should be clear whether one's anti-poverty programme targets the poor who are " Just below " or " far down below" the poverty line .*

MFIs by and large agree that hitting on the "right target" has been most difficult aspect in the implementation of microfinance programmes. However, there is a dichotomy here. Most of the MFIs publicly "profess" that they intend to alleviate poverty by targeting the poorest of the poor. But in practice microfinance programmes are run like "*financial business*" ventures. If we take their "public transcript" and "hidden

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transcript" into account, one could find the glaring variation between the rhetoric and reality.

Most of the NGOs, on the one hand have been pursuing some of the innovative social development programmes such as education, health, sanitation, environment from their early times, on the other hand most of them have started shifting their thrust and strategies towards credit programme. There is nothing wrong in credit programme if this change in thrust does not mean withdrawal of resources and endeavours directed towards the HCP in bringing them into the main stream of socio-economic development. However, apparently this change from care and welfare towards credit and credit plus in case of Bangladesh has experienced less attention to HCP to become participants in the MFIs programmes.

The critical aspects are that in the name of poverty alleviation what has been done by the NGOs are mainly : (1) Funds being collected from poor are used as *capital but no profit* (dividend) is ploughed back; (2) Interest is being realised at a *high rate*; (3) labour of poor workers are being purchased at a very *low price*. In a recent report, thirty eight NGOs have reportedly claimed to have spent Tk 412 crore (about US 84 million at 1998 exchange rate) for 5,732,000 slum dwellers/squatter settlements of Dhaka Metropolitan City (DMC) on education, health and environment awareness (NGO Bureau : Kabir, 2000). But on the other hand as per various survey reports, the total number of slum dwellers in DMC slightly exceeds 3 million. Even by spending millions in slums of DMC, these NGOs could not devise an ideal rehabilitation programme for these poor people. It reveals that whatever be the destiny of the poverty stricken people (Absolute poor (urban 49.7 percent and Rural 47.1percent), their existence is very much essential for NGOs.

A survey carried out in Feni village reveals that *microfinance gradually has been making the poor credit dependent rather than changing their economic status into self reliant attainments*. It is obvious that the rapid instalments of loans reduce the usage period of the credit that virtually raise the interest rates much higher than declared. The survey further indicates that the repayment is not related with the income from IGAs for which the loan was availed. It can also be noticed that NGOs enjoy 6 month grace period

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in paying their first instalment to PKSF. Whereas in most cases a microcredit beneficiary (poor) starts paying installments only after a week of loan disbursement. As a result microfinance users are forced to go for seeking further loan in the name of another project to continue repayment of the due installment of the first loan.

All plus points apart, the group members formed by MFIs in Bangladesh are completely dependent on the representatives of the MFI. There is no systematic phasing out or graduation of members or groups. The 10-15 years old groups as well as new groups are following the same system. The groups are totally depending on the MFIs staff. The nationalised commercial banks, cooperatives and government's rural development schemes, most often, could not provide credit to rural poor in Bangladesh. The reasons are well known such as : high transaction cost of microcredit; poor are illiterate so documentation is a problem; they do not have collateral etc.

MFIs in Bangladesh have been carrying on their activities without any sort of regulation and (or) supervision by the Government i.e., Bangladesh Bank (Central bank of the country) or by another body. During interactions with various authorities the need for supervising the activities of these MFIs has been greatly felt. A debate has been going on among the NGOs, Government of Bangladesh and the Bangladesh Bank about the possible supervisory mechanism. Various views emerging on this issue are summarised below:

- Prominent MFIs feel that self regulation may be adequate and ideal without the hassles of an imposing authority
- Bangladesh Bank feels that MFIs should have a competent Board with sound accounting audit and external audit systems
- An apex level formal agency has to be created for supervision
- The Bangladesh Bank is not equipped to act as the supervisor
- PKSF being fund provider could be the agency for supervision and regulation
- Registration of MFIs as financial institutions and licensing from Bangladesh Bank

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It is expected that in near future an appropriate supervisory and regulatory set up may be created fulfilling the need for regulation and supervision of MFIs. However, there is general acceptance amongst all concerned agencies that whatever be the regulatory and supervisory set up, it should not in any way retard the process of development being carried out by these MFIs.

The field visit experience (of various MFIs in Bangladesh) of the author indicates some mixed reaction of the NGOs beneficiaries about their service providers. Some of them compare the NGOs with the money lenders and complain their *inhumane dealings* to realise the credit. There are also discontent about the higher rate of interest of NGOs than the government programmes. Kalpana Das is among dozen of women in a village in Songazi Thana of Feni district who at the same time owes at least to four NGOs operational for microfinance in the area. Her total borrowings are nearly Tk 60,000. The entire amount was not sanctioned in her name. She used her relatives and neighbourers to get the money. As NGOs are strict in repayment, she is regular in repaying loans. " *I just take money with one hand and pay back with the other*" she said.

According to Chowdhry[22] " *Microfinance can attract HCP by special product design means allowing them initially only flexible savings and withdrawal facilities. Attendance in group meetings are not necessary. If necessary, non group concept for HCP can be introduced*". The views of Chowdhry who is accumulating decades of experience of working in a microcredit programme, are more realistic reflecting the necessity of designing special or exclusive programmes keeping the specific needs of HCP. These poor as per Maslow' s theory of hierarchy of needs, are at the stage basic needs.

In terms of policies, product designs, institutional structure and operational mechanism, present microfinance programme may not be able to reach the HCP. It requires different mandate, institutional structure and support from external sources government and non-government to reach the poor. According to Sen (1998)[23], in the

[22] Mr Shafiqul Haq Chowdhry is the founder of ASA

[23] Sen Binayak (1998), *Politics of Poverty Alleviation*, in Rehman Sobhan (ed), The Crisis in Governance : The review of Bangladesh's Development, 1997, UPL, Dhaka, 1998

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first generation poverty alleviation, microcredit was a success but the programme is increasingly being confronted with second generation problems. The innovation in the microcredit has been excessively limited as the programmmes have failed to reach HCP and the vulnerable non-poor (often known as tomorrow's poor).

One point of view expressed by MFIs officials is that while it is possible to help 50 percent just below poverty line, 25 percent at the rock bottom are destitute, physically handicapped, disabled, unwilling to work without any skills and prefer to beg. Any amount of financial assistance would not change their attitude. Remaining 25 percent may not be beggars and destitute, but the financial assistance will not help them as they do not have either inclination or skills for taking up self employment. For them wage employment is the only route to escape poverty.

4.6 Conclusions

It reveals that MFIs have been able to expand their outreach extending to millions[24] of poor particularly the women and have demonstrated some positive impact on the family including change in the behaviour and attitude of the beneficiaries, developing discipline through group organisation, reducing dependency on local money lenders and increasing income and consumption for family needs[25]. At the same time it has also been established that HCP have not been effectively reached by most of the microfinance programme operational in Bangladesh.

In spite of applying innovative methods in screening, identification and forming groups of target beneficiaries, the MFIs by and large failed to achieve their confessed goal of (1) reaching the HCP and preventing the "encroachment" of non target group from entering into the areas earmarked for the poor. Whether one defends or despises the "encroachment", it has really created a "tense situation" between target group and non target group on the one hand and the government and MFIs on the other hand.

The inferences could be drawn from the analysis given in this chapter that the microfinance with its existing institutional and operational mechanism does not embrace ' all people below poverty line'. It may be reaching to those who are "just below' or ón' or

[24] According to CDF statistics, the outreach of MFIs exceeds 16 million at the end of 1999.

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'just above' the poverty line and leaving out substantial number of HCP. Therefore, there is a need to explore or to go for exclusive programmes targeting the HCP. Consequently, whether it is a "*pull effect*" or "*push effect*", the echelon of hardcore poor by and large remains outside the coverage in the existing microfinance activities . Does this mean , that the existing MFIs have not been able to reach the hardcore poor ? These are very crucial issues and need further analysis to find out causes behind this opposite, sometimes controversial, trend. The next two chapters deal with these issues.

[25] Hossain M Azim (1997), *Economic Growth Through Microcredit.*

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Chapter V *THE HARDCORE POOR : FACTORS LIMITING ACCESS TO MICROFINANCE*

Since the 1960s and 1970s, several countries have made specific attempts to measure the extent of poverty primarily through income and consumption measures and more recently to measure the depth of poverty by distinguishing the poorest among the poor known as Hardcore Poor[1].

5.1 Introduction

The primary focus of this chapter is on demand side perspective of hardcore poor (HCP). An attempt has been made to identify Who and How many they are. It continues further exploring and examining a catalogue of major reasons and factors, both internal and external, that prohibit hardcore poor from becoming the participants of MFIs programmes. The analysis entails , firstly developing an understanding of the indicators and characteristics which identify hardcore poor and examining the causes of hardcore poverty. Secondly, major issues related to HCP in accessing microfinance have been analysed.

Quantifying mismatch between demand perspectives (HCP requirements) and supply aspects (MFIs mechanism), an analysis has been made for the dropouts and left outs of MFIs. In order to get a comprehensive view, division-wise spatial analysis with selected parameters related to poverty and outreach of MFIs has been carried out. An analysis of region-wise squared poverty gap both for urban and rural areas have been included using the latest BBS data of 1999 on poverty monitoring.

5.2 Indicators and Estimates of Hardcore Poor

5.2.1 Indicators of Hardcore Poor

In the available literature one cannot find a uniform definition of the term Hardcore Poor[2] specially in the context of Bangladesh. What is possible is to look into certain parameters, perceptions and indicators of HCP[3]. These may be summarised into two

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[1] Mahbubul Haq centre for Human Development (1999a) , *A profile of Poverty in Pakistan, UNDP,*

[2] Husain, 1999 p166

[3] The term 'Hardcore Poor' is often used synonymously with 'ultra poor' or ' poorest of the poor'. Sharp differences exist between poor and ultra poor but not between poor and non poor. The differences are related to labour market and demographic behaviours on the basis of income linked nutritional risks.

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categories : (a) *Economic Indicators* such as : assetlessness ; absence of male (adult) income earner; chronic food insecurity; prone to disaster and lack of coping capacity; wage dependence and (b) *Social Indicators* such as: widowed; divorced, abandoned; physically handicapped and floating, ethnic minority. In a conference[4], the participants unanimously defined HCP as those who lack ability in terms of food , shelter, occupation, education, health and other social services.

In monetary terms, for the purpose of international comparison, the World Bank defines[5] extreme poor describing those who live on less than a $ 1 (in 1995) per day. WB, elaborates further that the HCP are those who do not possess their own land or house, sell manual labour with no other means of income, do not have personal savings and ability to spend money on education, unable to have meals at three times a day and purchase minimum clothing. Considering the international standards , the ultra poor can be identified as those : spending more than 80 percent of their income on food; but satisfy below 80 percent of 1973 FAO/WHO calorie requirement for their age, sex, activity group and actual body weight.

Rahman (1995) and Hashmi,(1997) identify HCP as those who are forced to subsist on a per capita income of about Tk 3757 per annum which is about half of the poverty line income. The moderate poor again defined by Rahman (1998), are those who subsist around the poverty line which was Tk 6287 per capita per annum in 1994. They have an average landholding of 15 decimals only. As a group these chronically deficit on average consume only 1805 kilocalorie or less.

In terms of K.cal per person per day BBS (1994) determined the minimum requirements for Ultra poor, HCP and Absolute Poor are: 1600, 1805 and 2122 respectively. Lipton(1988) also provides similar definition and calls the ultra poor as both hungry and under nourished. Lipton further explains that People spending 70 percent or more of the income on food and meeting 80 -100 percent of requirements are unlikely to be under-nourished but are sometime hungry are called poor . It concludes

[4] The conference was held on "Redefining the NGO strategy on Reaching the HCP", held on 9-10 May, 1998 organised by DIDS (Rehman (1998)

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that at risk of being undernourished due to low income defines the ultra poor and the risk of being not harmfully undernourished but hungry due to low income defines the poor.

The characteristics identified by ASA (1997) include: illiteracy ; lack of vocational education; lack of healthcare; having weak asset base; earning low income; mostly suffering from malnutrition, unstable in their residential status, influenced by local elite. Using Cost of Basic Needs (CBN) method, BRAC specifies *extreme* poor as those who are chronic food deficit while *moderate* poor are those who are occasional food deficit.

Since officially defined poverty line of hardcore poor forms the basis of this study therefore caloric requirements as determined under EFI (see chapter 3) is more relevant while defining hardcore poor.

5.2.2 Estimates of Hardcore Poor

The estimates of moderate and hardcore poverty during a decade from 1982 to 1992 based on calorie-intake method, is summarised in **Table 5.1**.

Table: 5.1 Estimates of Moderate and Hard-core Poverty Based on Caloric-Intake Method
(No. in millions)

Year	Absolute Poor *				HCP**			
	Rural		Urban		Rural		Urban	
	Percent	No.	Percent	No.	Percent	No.	Percent	No.
1981/82	60.9	74	6.4	66	43.1	52	3.0	31
1983/84	47.0	57	7.1	66	31.3	38	3.8	35
1985/86	44.2	51	7.0	56	19.1	22	2.4	19
1988/89	40.5	48	10.8	44	24.9	30	5.0	21
1991/92	45.7	48	5.7	47	27.0	28	3.2	26

* For 1981/82 and 1983/84, the data relates to the proportion of the population below the recommended daily per capita intake of 2200 calories. The corresponding figures for later years is 2122 calories
** The data relates to the proportion of the population below the daily per capita intake of 1805 calories
Source: BBS 1995

[5] WB Report No 15431 - Bangladesh, August 14, 1996 p 36-38 quoted in HCP in Microcredit., ASA, 1997 p 11.

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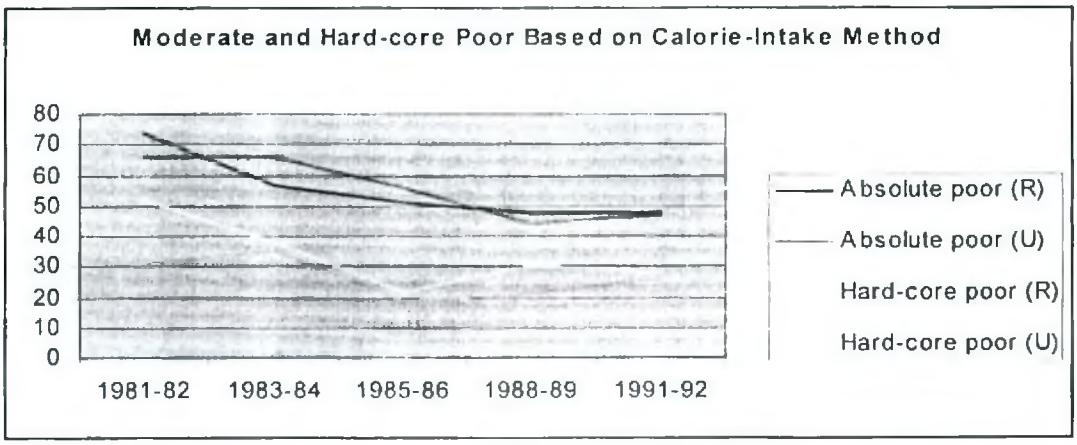
It indicates a zigzag situation entailing peaks and troughs of decrease, increase or stagnancy. However, the number of HCP decreased from 31 million to 26 million in the years 1981-82 to 1991-92 respectively showing an average decrease of half a million per annum. In case of rural areas, the number of HCP decreased from 43 percent to 27 percent over the same decade. The absolute number also decreased from 52 to 28 million respectively.

Graph 5.1



As it may be seen in the **Table 5.1** and also reflected in **Graph 5.1,** the rural HCP decreased sharply up to mid eighties and then showed a slight increasing trend until early nineties. It can also be seen in the graph that the gap of percentage of HCP between the rural and urban is becoming sharply narrow. The obvious reason of this effect may be attributed to the substantial increase in rural urban migration.

The recent CIRDAP - BBS Poverty Monitoring Survey of April-May,1999 reveals that out of 21.64 million of total households of Bangladesh, 42.29 percent (9.15 million) households are the poor households[6]. The region-wise squared poverty gap provides the extent of extreme poverty in the country as depicted in **Graph 5.2**

[6] The number of rural poor, according to HDR 1999, are 83.1 million (HDR1999 p179).

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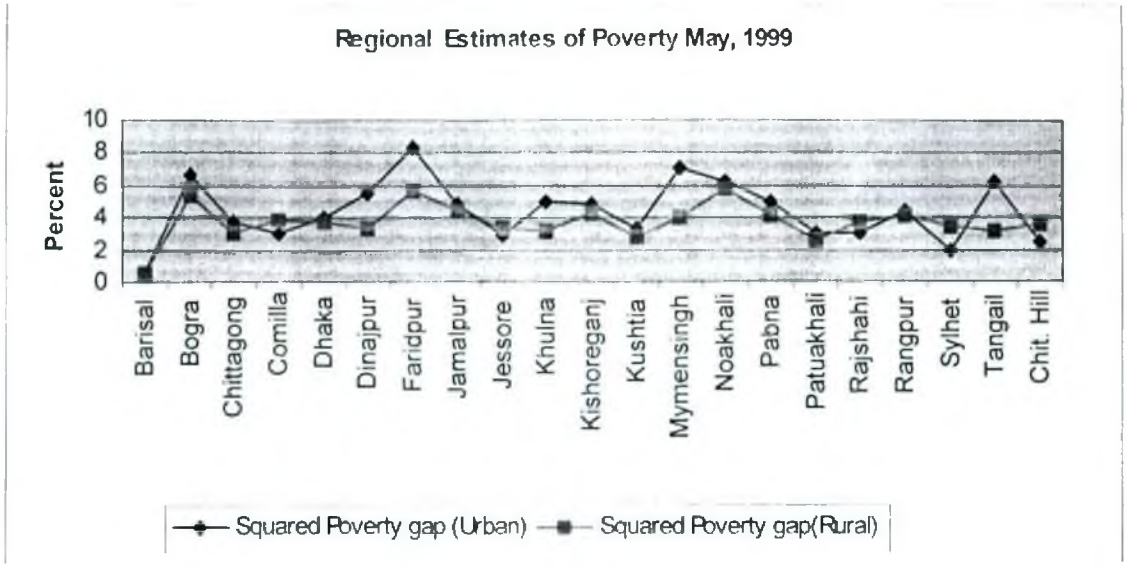

In Dinajpur and Faridpur regions the severity of poverty is greater compared to the rest of the regions of the country.

A survey of a sample size of 7200 households conducted by Helen Keller International in October, 1999 reveals that among the surveyed households, 27.8 percent were classified as vulnerable[7] and 70.2 percent were classified as functionally landless households in the rural Bangladesh. The findings of the survey depicting variations in the regions are summarised below:

(1) Vulnerability was highest in Chittagong Division (31.4 percent) and functional landlessness was highest in Dhaka Division (31.4 percent). Family size in Chittagong and Sylhet divisions was largest (6.8). Less vulnerable households had significantly larger families than the vulnerable households (5.8 vs 5.0 respectively).

(2) The urban round of the same survey with a sample size of 1440 households was conducted by Helen Keller International during October, 1999 in the slums of three big cities (Dhaka, Khulna and Chittagong) . The survey reveals that 41.1 percent of

[7] Helen Keller International defines Vulnerable Households as those with no cultivable land and whose main earner depends on casual labour for income and the Functionally Landless households are defined as those owning less than 50 decimals of land

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the households are vulnerable in Urban Bangladesh. There was a significant difference in family size between slums but no difference by vulnerability status.

(3) Among the surveyed households, 5.3 percent were female headed with Khulna having the highest percentage of 11.6 percent. Household crowding[8] is an indicator of social welfare.Overall, 45.2 percent households had 6 or more persons living in a 100 sq.ft. of the main living area. Crowding was most common in Chittagong (72.3 percent). Vulnerable households were significantly more likely to be severely crowded than the less vulnerable households ie 56.6 vs 37.0 percent.

(4) Close correlation between land and poverty is predictable, since land is still the most important income generating asset in the rural areas. The incidence of poverty in the category of less than 5 decimals of land is as high as 77 percent compared with only 11 percent recorded for households owning more than 5 acres.

(5) The incidence of poverty among the pure tenants (who possess no cultivable land is about 8 percent lower than in the case of non-cultivators. From poverty alleviation point of view, the importance of education and physical infrastructure can hardly be overemphasised. The incidence of poverty is 66 percent in case of those without any formal education, compared to 33 percent for those who attend secondary schools and 10 percent for those who passed the SSC examination. Similarly the incidence of poverty is about 13 percent lower in infrastructurally developed areas (with good road and electricity) compared to the more underdeveloped areas.

(6) The agricultural wage labourer living in the hardcore poverty are about 47 percent. **(Table 5.2).** The construction is the second major category (37 percent) under the hardcore poverty.

[8] Household crowding is defined as the number of persons living in a hundred square feet of main living area, crowdwd household have >6 persons /100 sq.ft

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Table 5.2 : Incidence of Poverty by Major Occupation (percent of total households in the group)

Major Occupation	Hardcore Poor	Moderate Poor	Non - Poor
• Cultivator	20.6	24.4	55.0
• Agricultural Wage Labourer	46.7	40.2	13.0
• Non- agricultural Wage Labourer	24.3	34.6	41.1
• Rural Industry	26.5	38.5	35.0
• Trade	9.3	29.6	61.1
• Transport	22.3	34.0	43.7
• Constructopn	36.5	34.6	28.8
• Salaried Service	4.7	14.7	80.6

Source : Analysis of Povert Project, BIDS (1994) quoted in Centre for Policy Dialodgue (1997), Growth or Stagnation p128

The results of Analysis of Poverty Trends Project[9] (APT) show that the poverty is higher in the category of female headed households, among those who possess little land and are cut off even from the tenancy market, and who earn their livelihood mainly through agricultural wage labour. For instance the poverty , according to head count measure is about 12 percent higher in female headed households than for their male headed counterparts as shown in the **Table 5.3**.

Table 5.3 : Incidence of Poverty by Socio-economic Characteristics (percent of Total households in the group)

Socio-economic Characteristics	HCP	Total poor
• Gender Status		
Female Headed	37.3	62.7
Male Headed	21.8	51.2
• Age of Household Head		
Less than 25	17.6	52.9
26 – 40	28.7	60.7
41 – 55	20.1	49.1
56 +	16.2	40.3
• Education of Household		
Illiterate	32.1	66.3
Attended Primary	16.6	46.5
Attended Secondary	10.8	33.3
SSC	8.8	10.3
HSC +	0.0	12.3
• Land Tenure		
Non - cultivator	38.5	72.7
Pure Tenent	24.6	65.3

[9] Analysis of Poverty Trend Project (APT) was a project undertaken by the Bangladesh Institute of Development Studies (BIDS) in 1994. The facts and figures published by Centre for Policy Dialogue (1997) in a book titled , *Growth or Stagnation*, 1997

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Tenent - owner	22.8	53.7
Pure owner	13.3	47.7
• Land Ownership (acre)	12.7	35.1
Less than 0.05		
0.06 - 0.50	39.8	76.8
0.51 - 1.50	29.6	64.7
1.51 - 2.50	19.5	50.0
2.51 - 5.00	7.9	31.1
5.01 +	3.4	18.2
• Infrastructure	2.4	10.5
With road and electricity		
With road and without electricity	17.5	44.1
Without road and without electricity	24.2	51.1
	24.8	57.2

Source : Compiled from Hossain (1996), quoted in Centre for Policy Dialodgue (1997), Growth or Stagnation p127

5.3 The Concept and Application of a Poverty Pyramid

Remenyi(1991, 1992, 1994), presents a framework for the analysis of poverty based on what he described as the " *Poverty Pyramid* " . The poverty pyramid includes all those who are below the poverty line The first principle of the Poverty Pyramid is that the poor are not a homogenous class of low income people. Remenyi argues that there exists as much diversity among the poor as there is in society as a whole. In this sense, one can consider *poverty as being made up of distinct sub-groups of poor people, with each strata of the hierarchy defined by the level of incomes and types of economic survival activity.*

Fig 5.1 shows that the echelons of poor can be characterised with the percentage of GDP per head. Obviously, the higher the GDP per head, the better is the socio-economic condition of the particular segment of the poor. The labouring poor are better-off than vulnerable poor. Similarly, the entrepreneurial poor are better than self employed poor and so on as depicted in the pyramid illustrated in Fig 5.1.

The five strata comprising the Poverty Pyramid are further structured with composition of various echelon of poor in the poverty pyramid in the **Fig 5.1**

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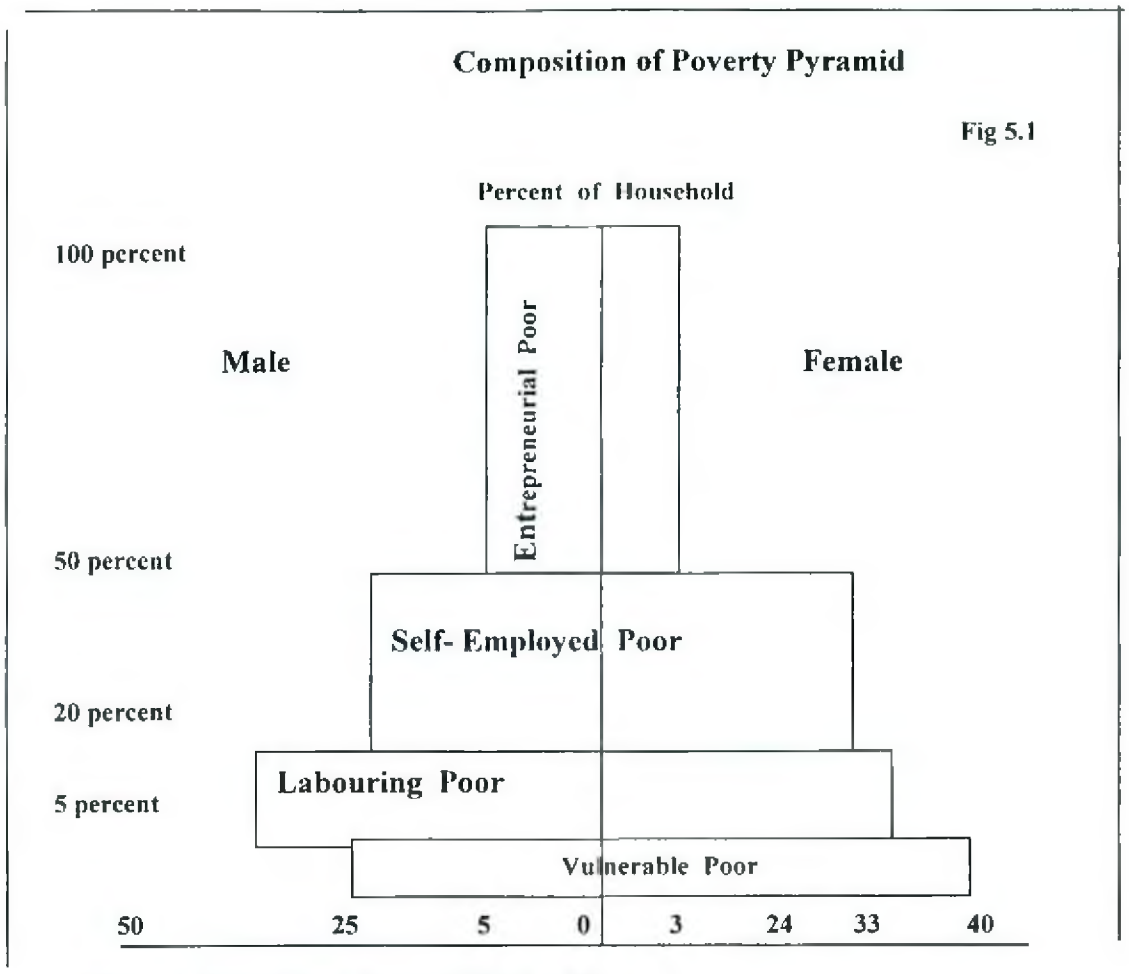

Source : Adopted from Remenyi (1994), p 278

The percentage figures presented in the above figure (**Fig 5.2**) composing pyramid are arbitrary just to illustrate the framework. Further description of each of the segments are as under:

(1) *Vulnerable Poor :* At the lowest layer of Poverty Pyramid are the vulnerable poor, by and large dominated by women and children but also include ill, weak and old. Lipton (1988), described them as "Ultra Poor". The population comprising of this sub-group is essentially dependent on others for their survival. In Bangladesh context, these are also called "extreme or HCP"

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(2) *Labouring Poor :* It is the second largest sub- group in the Poverty Pyramid. These are the people who rely on their labour power for their survival. Typically, the labouring poor do not have full time employment. The greater number of these people depend heavily on the sale of their labour, as unskilled workers, on a daily basis for wages and other income in kind. The labouring poor are widely seen in the construction sites, in agriculture areas working as agricultural labourers and in piece-work employment. Many of the vulnerable poor are dependent on the earnings of the labouring poor for their livelihood and survival.

(3) *Self-employed Poor* : These are the poor who basically work on their own eg in tailoring, carpentry, repairs, store keeping, side street vending enterprises etc. Remenyie (ibd) points out that, " *These self employed poor are considered as the backbone of the microenterprises sector in developing economies and their enterprises form an important source of survival employment, typically on part time basis, for the members of the vulnerable poor, including children, the weak and ill persons* "

(4) *Entrepreneurial Poor :* They may be considered as the most important and dynamic sub group in the Poverty Pyramid. These poor are also self employed but they run their own enterprises employing more than five persons including their family members and outsiders. Although this sub-group shows success as small business operators, many of them belong to households that remain below the poverty line

(5) *The Near Poor:* The fifth and last sub-group of Poverty Pyramid is the least materially deprived category of the poor community. They belong to the households whose livelihood is intimately linked to the economic activity of the poor, but they typically receive an annual household income of somewhat above the poverty level. But for many persons in Near Poor Households, their personal annual income remains well below the national average income per head.

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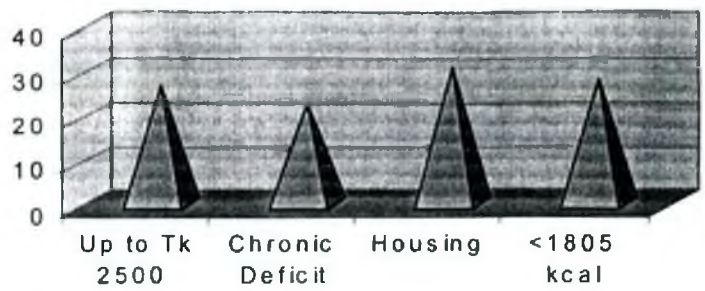
Poverty Pyramid

Fig 5.2



In summary, the purpose of having these five strata is to focus attention on likely policy reforms or interventions that can be expected to increase the quantity and quality or unit value of goods and services produced by the households that inhabit each separate level of the Pyramid. An attempt has been made to make further structural analysis of the poverty pyramid (hypothetical) in **Fig 5.2**.

The poverty pyramid can also be developed depicting the percentage of people living in poverty in Bangladesh according to different parameters such as calorie intake of less than 1805 cal per capita: 28 percent (ie the HCP) ; annual income of less than Tk 2500[10] : 26.9 percent ; basic need like housing (Thatch + 1 room) : 9 percent and chronic deficit : 23 percent.

Categorising Rural Poor by Income, Self Evaluation and Housing

According to a survey (Rahman, 1993) which used three indicators : (a) per capita annual income; (b) self evaluation; and (c) housing condition, 61.8 percent population lives below the poverty line income ie Tk 4608 per capita annual income (during 1989-90). Among them, nearly half of the poor are those who have per capita income up to Tk 2500 per annum. The **HCP** constitutes a distinct rural poor averaging roughly a quarter of rural population while the vulnerable group accounts for a wide stratum ranging from 31 percent by the housing criterion to 50 percent by the self evaluation criterion . Corresponding data are given in **Table 5.4**

[10] Poverty line Income was estimated as Tk 4608 per annum : Source : Rahman (1993)

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Table 5.4 : Incidence of Rural Poverty in Bangladesh

Per Capita Annual Income		Self Evaluation		Housing Condition	
Size Group (in Taka)	Percent of Population	Category	Percent of households	Category	Percent of households
Up to 2500	26.9	Chronic deficit	23	Leaf roof	9
2500 – 3500	18.3	Occasional deficit	50	Thach 1 room	12
3500 – 4608*	16.6	Self Sufficient	17	Thatch 1 + room	31
4608 – 6000	13.3	Surplus	10	Tin roof	45
6000 & above	24.8			Pucca roof	2
Total	100		100		100

* Poverty line Income Source : Rahman (1993)

5.4 Exclusion of HCP from MFIs

NGOs members can be categorised into three main groups on the basis of : (1) land ownership; (2) labour category and (3) vulnerability. A survey[11] (results presented in **Table 5.5**) reveals that significantly greater proportions of NGOs member households are landless (being 78 percent). However those who also own land are about 22 percent.

A similar examination of the proportion of the NGO members by vulnerability status reveals that although all three groups were significantly different from one another, the most marked difference was observed between less vulnerable households (27.7 percent) and moderately vulnerable households (39 percent). This data also confirms the findings of various studies that NGOs do target the poor, using the definition of land ownership less than 50 decimals (WB 1998; Rahman, 1998)

Table 5.5 : Characteristics of NGO Member households (percent)
(N = 7200 households)

Main Categories	Characteristics	NGO members (percent)
Land ownership	• Landless • Land owner	78.1 21.9 100

[11] The survey was conducted by Helen Keller International (1998). A sample size of 7200 households was selected on the basis of systematic sampling from 24 thanas (4 thanas per division. From each of these four randomnly selected thanas, 10 clusters or mauzas are selected using probability to proportionate to size) in Rural Bangladesh.

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Labour Category	• Casual • Permanent	44.3 55.7	100
Vulnerability	• Extreme/HCP • Moderate • Less vulnerable	33.3 39.0 27.7	100

Source: Helen Keller International, 1998 NSP Annual Report p30

According to UNDP Poverty Report 2000[12], " Microcredit is probably not well suited for all segments of poor. The Hardcore Poor (HCP) are reluctant to take the risk of credit and when they do so, it is usually for emergencies. In Bangladesh only a fourth of microfinance clients are Hardcore Poor" The World Bank document (1996) also reported exclusion of the HCP from MFIs programmes. Identifying the limitations of the NGO approach, WB specifically mentions that about four fifth of the Grameen loans are disbursed against schemes on agriculture, livestock, processing and manufacturing. These schemes have certain gestation period spread over several months or more. These activities do not match with the conditions that require repayment of the principal and the interest in weekly installments.

The HDR Bangladesh[13] reveals that even the best performing programmes hardly reach the bottom 20 percent of the population. According to another report (WB, 1999), the HCP who account for 50 percent of the poor population or about 30 million people are not reached in substantial numbers by microcredit schemes. According to Dolla (1999), despite considerable success in terms of outreach, studies in Bangladesh and other countries show that *microcredit is able to serve only 35 percent of the target* population leaving out the HCP who constitute about half of the poor in Bangladesh. Based on a sample size survey of 7200 households in the annual report 1998 of Helen

[12] *UNDP Poverty Report 2000*, United Nations Development Programme,New York, Chapter 8 : Focusing Resources on the Poor, pp 82-91 .
[13] UNDP, HDR in Bangladesh, Local Action under national constraints, Dhaka, 1992

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Keller International[14], only 33.3 percent of the vulnerable are the members of the NGOs in Bangladesh.

According to recent study by BRAC[15], about 30 million people are characterised as hardcore poor among the 50 million living below the poverty line in Bangladesh. Only 27 percent hardcore poor are being reached by the MFIs. A survey[16] based on a sample of 1072 respondents further reveals that the number of non poor participants of MFIs programmes are 48 percent. Such a limited access to MFIs by the HCP is a crucial issue.

Similarly, as pointed out by Ahmed (2000), about half of the MFIs credit is disbursed to activities with long gestation periods and the credit is probably used by the "better-off poor". It is logical to assume that those who can repay the loan in weekly instalments have access to other sources of income. This means that MFIs credit for self employment programmes presumes possession of basic assets on the part of the intended beneficiaries, including social and financial skills and stable habitation. This leaves out the HCP.

A case study carried out in three villages (Rahman, et al 1998) also finds that the households surveyed have about one-third population each for HCP and moderate poor (30.6 percent and 29.7 percent respectively) who are the participants of MFIs programmes.

5.5 Causes of Exclusion of HCP from MFIs

The major variables hindering participation of HCP in MFIs programme are related to : *organisational policies* (eg time for group formation, transfer of staff, changes in policy decisions etc), *staff efficiency and skills; selection of loanee members; group functioning; ceiling limits of the credit ; service charge, organisational culture; and NGOs competition.* The factors related to potential beneficiaries include socio-

[14] With the support from USAID, The Nutrition Surveillance Project (NSP) is operational since past more than ten years. NSP is a joint initiative of the Institute of Public health Nutrition and Helen Keller International, implemented in collaboration with 19 NGOs in Bangladesh.
[15] *Sustainable Livelihoods of the HCP - Evidence from a BRAC Study,*, January, 2000
[16] The survey was conducted by BRAC in 1998

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cultural and financial status of families, utilisation of loans, ability to invest, behaviour patterns of group members. The variables related to geo-environmental factors are the geographical location and environmental degradation.

A study of 296 centres (also called as samities) of 20 NGOs which included 7,097 members[17] found that 45 percent (62 centres) of the HCP were excluded consciously by the group members. The same study (ibid) also found that :

- *1,553 members poorer than the members in 296 samities did not join the groups due to the following reasons:*

  (i) 25,17 percent (391 persons) feared that they will not be able to pay weekly savings regularly;

  (ii) 14.68 percent (228 persons) did not join as they would not be able to repay instalments on regular basis;

  (iii) 7.3 percent (114 persons) were not interested in receiving loans;

  (iv) 8.9 percent (108) did not like to attend weekly meetings;

  (v) the other reasons were : old age (57 persons) and not permanent resident (73 persons) of the area.

It is important to note that that *the reasons mentioned above are among the basic features of the microfinance programme.*

Six hundred and forty three members left from 296 groups under the same study due to the following reasons :

- *20.99 percent (135 members) could not pay weekly loan instalments;*
- *18.66 percent (120 members) left the area for various reasons;*
- *another 18.66 percent (120 members) did not attend group meetings;*
- *14percent (90 members) could not pay weekly savings regularly and*
- *14 percent (70 members left because of objections from their relatives*

[17] Dewan A alamgir, *The Impact of Poverty Alleviation programme of Palli Karma Sahayak Foundation : A case Study*, Unpublished draft report, Robert S Mc Namara Fellowship Research, The WB, 1997

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A PRA Feedback on MFIs

In the participation process of MFIs programmes, the criteria important to borrowers may be set as (PromPT, 1996) the following:

- *interest rates;*
- *ease of repayments;*
- *size of loans; other services;*
- *easy procedure;*
- *advice/training; good behaviour of NGO staff;*
- *diversified loans.*

PromPT[18] carried out a survey through using the technique of Participatory Rural Appraisal (PRA) in five districts (Sylhet, Rangpur, Dinajpur, Laximipur and Monikganj) with about 500 borrowers (70 percent women) . The survey findings indicates the following:

- *MFIs operations are skewed in favour of organisations rather than the users. It is obvious from the rules and procedures of repayment, retention of savings and group formation are the mechanisms to safeguard the interest of the MFIs*
- *MFIs usually do not make clear to the borrowers about the Interest Rate which include all cost of availing loan eg tax, insurance etc*
- *Interest paid on full amount throughout the year is unfair. It should be based on reducing balance method*
- *GB is an expensive MFI. Five percent compulsory deduction at the time of disbursement is unfair. It is strict in repayment. It has a Mahajan attitude*
- *The interest rates of 10-12 percent are acceptable*
- *The credit amount of less than Tk 3000 is rarely used for IGAs, rather it is used mostly for household expenses. The amount greater than Tk 8000 can be used for IGAs.*
- *32 percent repayment comes from sources not related with the IGAs started with the investment from loans.*

[18] PromPT (1996), " Financial Services for the Rural Poor - Users Perspectives" a study conducted for UNDP.

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- *Borrowers with outstanding credit with more than one organisations is common*
- *Only 3.4 percent of existing loans are amounting exceeding Tk 8000. Most of these loans are the housing loans from GB.*
- *Borrowers regard NGOs as the Credit Business*
- *Some times NGOs are out of the scene, taking away their savings. The Credit plus organisations are more stable as these have other activities like health, education*
- *According to borrowers the loans should be easy to get. It means simple application forms, less time in processing and approval and to avoid preconditions of savings.*

A PRA exercise of a BRAC study (Husain, 1999 p 168) identified the following reasons for non participation of the HCP in the existing credit programmes:

- *Some of the most vulnerable and poor did not join any NGO because they were concerned about not being able to make regular savings deposits or timely loan installments*
- *Some female-headed households did not join BRAC or any other NGO as there were no adult males in their family. It is difficult for them to utilise loans and make timely installments.*
- *Some people did not join BRAC because they thought it would be difficult to leave once they had joined. They were also concerned about whether or not they would get back their savings when they decided to leave.*
- *Some people mentioned that they did not join BRAC because of high interest rates charged on its loans*
- *According to some respondents, the poor of their village did not join any samities because they think it will be a lowering of their prestige and dignity in the eyes of the community.*
- *From the discussions it also became clear that comparatively better-off VO members were reluctant to include this section of people in their samities. According to some better-off VO members, poor people will be more prone to defaulting on their loan*

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instalment payments and in order to ensure that the samity does not acquire a bad name, they (the better-off members) will have to take the responsibilities to ensure timely loan repayments.

- *In one area, a religious minority group was not included in the samity as the members were concerned that the group might leave the village without informing anyone.*

From the above analysis, it may be concluded that the factors which are by and large responsible for the exclusion of HCP from becoming the participants of MFI programme may be grouped into two categories ; (a) *Endogenous Factors* : HCP cannot save regularly ; HCP cannot repay loan regularly; HCP cannot afford time to attend meetings ; Absence of male adult earning member ; Lack of skill/entrepreneurial capacity; social and traditional values inhabiting participation (b) *Exogenous Factors :* Opposition of group members; in appropriate programme design; NGOs and Donors concern for cost effectiveness

In order to achieve higher level of disbursement, NGOs disburse larger amount of loan per member may be through multiple loaning. This requires higher capacity for the members to manage larger amount of loans and better economic opportunities. Consequently, it forces the concerned field force of the MFIs to select better-off members with higher loan absorption capacity. Simultaneously the members of the groups also select co-members from better-off section so that they can repay the loan installments regularly. It helps in reducing risk of defaults and bad debts. Higher investment potential exist in the areas where there exists good infrastructure. Thereby, the process automatically excludes remote areas and the HCP.

5.6 Issues in Reaching the Hardcore Poor

The present trend of microfinance programmes reveals that the beneficiaries undertaking IGAs are the main TG. The credit disbursement in the cottage industries sector is getting priority. On the other hand food processing, small business, housing, health and livestock sectors were getting less priority during the period December 1998 to June 1999. Sub-sector wise microfinancing shows that the small business still gets the

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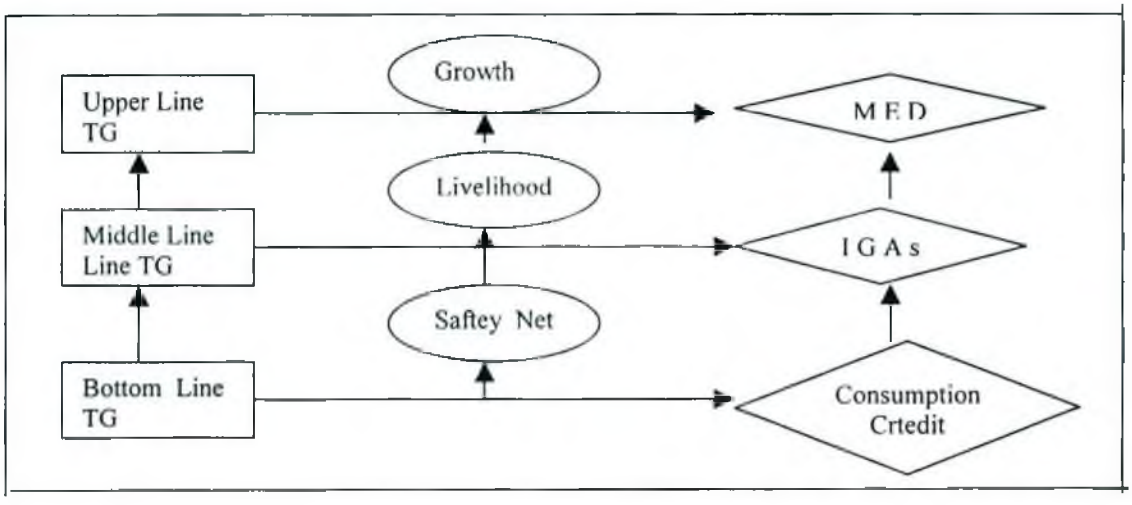
highest share of 42 percent followed by livestock which is about 18 percent. (CDF Statistics Vol 8, 2000)

Various research papers , reports and studies show that *the two types of TGs ie the HCP and the scaled up from IGAs are mostly beyond the outreach of microfinancing system.* The graduation process among TGs is interrelated and it is a continuous process as illustrated in **Fig 5.3**

Fig 5.3 : Graduation Process



With a view to reducing the gap among various strata of TGs and to enhance the scope of microfinance, the TGs can be categorised into the following three categories:

(a) The ***Bottom line*** Target Group (BLTG) - The poorest of the poor or the HCP (HCP) or also called the HCP or ultra poor

(b) The ***Middle Line*** Target Group (MLTG) – This echelon of poor comprise moderate poor engaged in IGAs. Their economic and social conditions are comparatively much better than BLTG

(c) The ***Upper Line*** Target Group (ULTG) - Scaled up TG who have some surplus income and have potential for Micro entrepreneural development activities (MED)

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Due to their unique characteristics, it would be prudent to take befitting measures for the above mentioned categories of TGs. In general , these TGs need financing to undertake different activities as summarised below:

Categories of TGs	Activities	Objectives of Financing
Bottom Line (HCP)	Survival by consumption	To create Safety net
Middle Line (Moderate)	IGAs	To run livelihood
Upper Line (potential entrepreneur)	Micro Enterprise Development	To attain growth

Essentially, 'Poverty Targeting' is a strategy to increase income of the poor which can improve their standard of living. At the same time, the income cannot be increased unless the productivity of the IGAs of the poor are increased on sustainable basis. It also relates to the changes in policy environment or parameters that determine the choices open to the poor people.

5.6.1 Mismatch between Demand Perspective and Supply Aspects

The financial viability of MFIs is given utmost importance for sustainable financial services to the poor. The financial viability in this context means recovering the operating cost of a microfinance programme and gradually building up surplus to create capital by the MFIs. Under usual practice, maximising income and minimizing cost are the objective functions leading towards the full recovery of cost. The increase in rate of interest has many implications and it is usually not preferred by MFIs whereas increase in disbursement is possible to maximise income. Most of the NGOs whether big or small follow this strategy (CDF, 1997)

The mismatch between these two with respect to programme components and institutional viability may be summarised **(Table : 5.6)** as under:

Table : 5.6 Mismatch between HCP and MFIs

	Need of HCP	MFI Programmes
Programme Components	• Support for nutrition • Skills development (training) • Small size loan	• Bigger size loan • Mandatory (rigid)

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	• Flexible savings • Flexible repayment	savings • Weekly repayment (mostly)
Institutional Viability	• Slow financial viability • Financial support/grant is needed for nutrition, training and delivery mechanism	• Fast financial viability

5.6.2 Targeting Approach and Criteria

Setting the criteria for " targeting the poor" is another issue which may exclude one section of the poor. There are four methods[19] which could be used in targeting the poor by various MFIs. These are :

(1) ***Area Based Approach*** : It is based on backwardness, with the assumption that all or most of the inhabitants living in the remote or backward areas are to be poor. Experience however shows that non tribal encroachment in tribal areas of Chittagong Hill Track of Bangladesh or Tribal Area in Andhra Pradesh or Madhya Pradesh in India is an open secret. Therefore to target microfinance on such a blanket basis is tentamount to inviting the NTGs to encroach upon and gamer the benefit meant for the TGs. IFAD tried this method in Paragnay with some degree of success ;

(2) ***Income and (or) Land Based Approach*** : GB , BRDB, BRAC and many other NGOs of Bnagladesh for instance are using landholding of 0.50 acre as an eligibility criteria. ASA considers Tk 1500 per month as basis for selection of its TGs. An alternative to long and lengthy household survey, David Gibbon of CASHPORE (a network of 23 GB replications in nine countries of Asia evolved a new tool called CASHPORE Housing Index (CHI). The three elements in CHI are ; size of house, building material or physical appearance and the type of roofing. These reflect the poverty or prosperity of household. It is true that most of the houses that belong to the

[19] These methods have been used by various government and non government agencies in India. The article was published in the daily Financial Express, September 10, 1999

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poor are made up of thatched roofing, bamboo roofing or roofing made of plastic material. Combined with size of house and kind of material, one could come very close to identifying TGs. However, there may be some situations in which CHI would give poor or even wrong results. In such situations, alternative participatory methodologies like PRA or wealth ranking could be used to ascertain TGs. ;

(3) ***Size of Loan Approach*** : John de Wit of Small Enterprise Foundation (SEF), South Africa wanted targeting through "Meagre" loans by reaching the poorest of the poor through offering very small loans on the assumption that only poor would take such small loans. But later SEF realised that their TGs was not really HCP. It shows small size loan would not guarantee right targeting;

(4) ***Triangulation Method*** : Since no single method is perfect, the MFIs tend to use a combination of these methods which can be termed as triangulation.

Most of the MFIs target those households in their programme (mainly the credit programme), who have land up to 0.50 acres. This type of target setting may not actually help in bringing the poorest of the poor under its coverage as it may be possible that even within this binding, people with relatively large landholding will increasingly participate in the programme. There are clear indication that target households also comprise a significant portion of programme participants. One study found *30.5 percent and 33.1 percent members of BRDB-RPP and BRAC-RDP fall beyond the definition of poor.*[20]

In order to attain a favourable framework in poverty targeting, Remeny (1994) argues " *Poverty targeting should assist poor households in this endavour by creating the conditions for sustained improvements in the ability of the poor to earn income, be competitive in the market place, choose options that will lead to greater self reliance and accumulate surpluses of income and assets to more than tide them over the next 'crisis'. In short poverty targeting is about helping people to escape their mire of poverty*"

[20] Alamigir (1997)

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The land ownership criteria is widely used to define and determine the eligibility of joining the microcredit programme in Bangladesh. *Landless or near landless* are perhaps best defined as those household who neither own nor operate land, plus those owing holdings too small ... given typical quality of land ... to provide after meeting off-farm costs, even one third of food needs (Lipton 1988). This does not prove that the policies aimed at raising productivity among the poor do not help the ultra poor, but it does suggest that the ultra poor may require different policies in particular "calories and health first" if they are to be able to raise their productivity. (ibid)

A comparative study of BRAC and BRDB programmes[21] shows that 30.5 percent of BRDB-RPP and 33.1 percent of BRAC -RDP programme participants fall beyond the above mentioned parameters of the poor.

A study of 100 very poor families of Kishoreganj Sadar Thana (UNDP, 1996,p133) shows:

(a) ***Nutrition:*** 5 percent of the families get one meal a day. These families do not always get 2 square meals a day;

(b) ***Land ownership*** : 12 percent do not have homestead and 79 percent do not have agricultural land ; 6 percent have water sealed laterine; chronic disease of one or more members;

(c) ***Housing :*** 72 percent have thatched house. The number of HCP are more in inaccessible areas.

It concludes that under the usual norms, men and women owing 0.5 acres or less land are eligible to participate in a microcredit programme. With this criteria, about 60 percent of the population of Bangladesh falls under the target population following the above criteria of land ownership but as indicated by various studies, the HCP (bottom 10-15 percent of the population of Bangladesh) are not reached by these programmes (Alamgir, 1997).

[21] Debapriya Battacharya, *Rural Poverty Alleviation Through Non-Farm Employment Programmes,* Final Draft BIDS, 1990

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5.6.3 Mistargeting

The Grameen Bank microcredit programme possesses an in built self targeting mechanism in the form of small loans size, targeting women, floor seating during centre's meetings, chanting slogans and saluting etc which the high income class people (NTGs) may not like to follow. Most of the MFIs in practice find their programmes containimated by "Mistargeting". Hossain (1988) estimated mistargeting in GB, was 4 - 6 percent. Later studies estimated the mistargeting to be 20 -30 percent (Subrahmanyam 1999).

Recently Imran Matin studied the issue of mistargeting in GB using the household survey data on 354 GB borrowers in four villages of Madhupur Thana in Tangail. According to his analysis (rejecting the hypothesis of graduation), the introduction of seasonal loans in 1992 alongside the general loans is believed to have caused the mistargeting in GB. The expansion of loan portfolio increased the average loan size per borrower as well as entry point loan size. He also found that the post 1992 household borrowers own more than the pre 1992 clients **(Table 5.7)**. Over 30 percent of the post 1992 beneficiaries own more than 100 decimal of land .

Table 5.7 : Land Ownership Distribution of GB Member Households

Land ownership Class	Pre - 1992 Households (n = 269)	Post – 1992 Households (n = 85)
Landless (1)	48.5	30.2
> 0 to <= 50 decimals (2)	30.4	18.9
Target Group (1) + (2)	**78.9**	**49.1**
>50 to <= 100 decimals (3)	8.3	18.9
> 100 decimals (4)	12.7	32.1
Non-target Group (5)	**21.0**	**51.0**

Source: Imran Matin, *Mistargeting by GB : A possible Explaination,* IDS Bulletin, Vol 29 No 4, 1998

As, it may be seen in **Table 5.7**, while the extent of mistargeting in pre 1992 households is 21 percent, it has increased to 51 percent in the case of post 1992 households. Usually, the large size loans : general and seasonal are attractions and act as an incentive for the participation of non-target groups in the microcredit.

According to Hasan Zaman's study on BRAC's RDP in Matlap area, the proportion of NTGs is 32 percent. The NTGs figure is based on the data collected in

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1995 which possibly includes some households graduated from TG. But the baseline data also shows that 28 percent of households belonged to the NTG category.

Who benefits from mistargeting ? It may be concluded that for : NTGs -their inclusion increases the demand of more and bigger loans and productive deployment of resources in microenterprises. For the MFIs - it reduces the risk of default and augments savings possibly increasing the financial sustainability.

5.6.4 The Mystery of MFIs Borrowers Exceeding the Number of Poor Households

It has been pointed out from many quarters and also revealed and recognised by MFIs themselves that, the HCP (bottom 15-20 percent of the population) by and large remain outside the main stream of socio-economic development of MFIs. . The factual position (Ahmed, 1999b) pertains to " *Micro success and Macro Failure of the MFIs*". It is evident over the past decade that the percentage of poverty below the poverty line remained without significant change being 47.5 percent in 1995-96 which was 47.8 percent during 1988-89[22].

In this scenario, it is interesting to take notice of the fact that there has been a substantial increase in the number of microfinance borrowers during the same period of decade as follows: [23]

- *The number of development NGOs increased almost doubled (local: increased from 395 to 882; Foreign increased from 99 to 132) from 1990-91 to 1995-96*
- *The percentage of aid (foreign funding) to NGOs increased to almost three times (Increased from 6.2 percent in 1990-91 to 17.9 percent in 1995-96). In the meanwhile, the economic assistance disbursed to Bangladesh during the same period remained almost stagnant ie US $ 1732 million and US $ 1739 million respectively in the years 1990-91 and 1995-96*[24].

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[22] Original source BBS, also quoted by Ahmed Mumtazuddin (1999).
[23] Sources of figures are : ADB; NGO Affairs Bureau quoted by Ahmed Mohiuddin, 1999 p27; Bnagladesh in the New Millenium p414, Community Development Library (2000)
[24] Figures Source: Community Development Library (2000), *Bangladesh in the NewMillenium p 414*

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It is therefore, logical to say that with substantial increase in outreach of MFIs, the number of poor should decrease over time or there should be a positive change in reducing poverty level, if MFIs are intended to achieve the real goal of reducing poverty in the country. In simple terms with many assumptions, it may be expressed in the following expression:

Outreach $\propto$ 1/p

where 'p' represents the level of poverty

But in practice, the poverty level has not shown worth mentioning decrease proportionate to the input deployed through microfinance (outreach of MFIs) with corresponding intended output (decrease on poverty level). So the critical issues still to be addressed are :

(1) *Whether the existing MFIs have inherent limitations in their delivery and (or) institutional mechanism making them unreachable to the HCP?;*

(2) *Whether some reforms or modifications are required in the existing MFIs operations to make them able to reach the HCP and what could be those changes ?.*

(3) *Another alternative analysis may be to see whether totally a new product or strategy or alternative models and institutional mechanisms are required ?*

The outreach of *MFIs exceeds 14 million borrowers in Bangladesh whereas the number of poor households are 9.15 million*[25] *or about 54 million.* Assuming that each of these borrowers are representing a household (as in principle NGOs advocate), then this presents an obvious mismatch with a substantial difference i.e. outreach exceeds the number of poor families.

This mismatch indicates obvious overlapping with the same borrower taking loan from many sources. Results of a UNDP study conducted by PromPT(1996) confirms this effect . Even then the factual situation is that the substantial number of HCP remain outside the developmental activities of MFIs. The main issue continued to be examined is

[25] According to the latest survey conducted by CIRDAp _BBS during April - May, 1999

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that why the potential HCP remain outside microcredit programmes and how potential HCP are constrained from becoming the members of microfinance programmes. The next section carries on this discussion.

5.6.5 Dropouts and Left Outs Of MFIs

When the default rate becomes very high and the repayment rate decreases to a dangerous level, it becomes alarming for the survival of an MFI. There are large NGOs like ASA which has repayment rate of 98 percent plus but at the same time there are NGOs which on the other hand have the a default repayment rate of 98 percent such as Madaripur Unnayon Kendro (MUK). Kabir (1997) 's study on ASA identified the following major factors causing default in the microcredit programme :

- *irregularities of beneficiaries to take part in the activities of NGOs Programmes ;*
- *mismatch between formal institutions and /or non-formal institution and the requirements of the poor; location and market related factors.*

The default rate is simply calculated through deduction from repayment rate. A sample representing such a high default rate (17 MFIs) is given in the following **Table : 5.8** for selected 17 MFIs in Bangladesh :

Table : 5.8 **Rate of Repayments of Selected MFIs**

	Name of MFI	Repayment Rate (in percent)	Default Rate (in percent)
1	Comilla Proshika Centre for Development (CPCD)	79.25	20.75
2	Palli Gana Unnayan Kendra	78.00	22.00
3	Adarsha Samaj Seba Samity (ASS)	60.00	40.00
4	Come To Work	54.45	45.55
5	CHEMF	52.00	48.00
6	Palli Kallyan Sangstha	50.00	50.00
7	Anirban Sikha	42.00	58.00
8	Mukti Shikha	38.00	62.00
9	Rural Development Society (RDS)	18.00	82.00
10	Organisation for Distress People	16.00	84.00
11	Gram Bikash Kendra	15.00	85.00
12	Thengamara Mohila Sabuj Sangha (TMSS)	15.00	85.00
13	Community Reconstruction Centre (CRC)	12.00	88.00
14	Shariatpur Development Society	12.00	88.00
15	Akota Samaj Unnayan Kendra	10.00	90.00
16	New Earth Concern	8.33	91.77
17	Madiapur Unnayon Kendro	2.00	98.00

Source : CDF quoted in an ASA publication, *Causes of Default in Microcredit* May, 1997 p3

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Big MFIs (GB, BRAC, ASA, Proshika), have repayment rate of over 90 percent. These MFIs have a combined coverage of over 80 percent, therefore in terms of quantum at national level, the smaller MFIs such as above are ignored in the analysis. But the default is a major issue in microfinance. It also depends upon the socio-economic situation . The rate of defaults vary from one country to the other. In case of Pakistan, the MFIs repayment is very low being around 60 percent (Zafar, 1997).

(i) The Factors Leading towards Dropouts

Discontinuation of membership is a phenomenon occurring in the group dynamics. It can be of two kinds : (1) voluntary dropout by members and (2) expulsion of members. A case study of BRAC with a sample size of 1072 households (Husain, 1999) indicates that out of 143 dropped out members, 121 (85 percent) reported that they left BRAC at their own. The rest 22 (15 percent) dropped out members were forced by BRAC to leave. The six reasons of withdrawal of membership are given in the **Table 3.9**

Table : 5.9 Reasons for Dropout

	Reasons for dropout	Number	Percentage
1	Savings retained by staff for adjustment of overdue loan	27	18.9
2	Inability to pay instalment due to loss in IGA	99	69.2
3	Parda (vel) restruction imposed by the senior/aged family members	1	0.7
4	Untimely distribution of loan and receiving of lower amount due to forced savings	9	6.0
5	Misbehaviour of the field staff Misunderstanding among the members	3	2.1
6	No response	1	0.7
7		3	2.1
	Total	143	100.0

Source: Husain, BRAC, 1999 P 282

As it may be seen in the above table that inability to pay instalment due to loss in IGAs is the major reason. Some other reasons of dropouts explored during PRA conducted by BRAC using Ranking Technique were identified as given below:

(1) Some members accumulated a large amount of savings in their individual account. The BRAC policy of restriction on withdrawal of their savings, forced them to quit so as to get their savings

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(2) Some members reported that the loan was spent on treatment of the earning member who was sick. Unfortunately after the death of the earning mamber, they found it difficult to pay their instalment. Other members of the VO forced them to pay regularly that is why they left BRAC.

(3) Some of them are also members of other NGOs . After receiving loans from different NGOs, it was not possible for them to manage all the due repayments

(4) Many of them felt that their economic condition improved as a result of their husband's business. So they need not to stay any more in the VO and left BRAC. It is desirable and happy situation.

(5) It has been time consuming for some members to attend meeting at a place which is far from their residence. Besides, they cannot spare their time from their household work. So they left BRAC

(6) Some of them joined GB after leaving BRAC. The reason given by such members is that the GB allows two loans at a time. GB gives crop loans and allows withdrawal of group funds and savings from the savings account at any given time

(7) Another reason for dropout is the migration of the female members due to marriage or due to change of residence

The dropout factors may be classified into the following three categories:

(1) internal factors (rules of MFIs, quality of staff and Management skills);

(2) External factors (Migration, ,soio-cultural and family related); and

(3) Mixed factors (Voluntary dropouts, facilitation of other NGOs, and profit of the project).

Analysis of a survey of 173 units (with 202 different level of field staff of ASA) on the dropout factors reveals that:

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(1) Insufficient time for group formation (91 percent response) : ASA allows its field staff ie CO (Community Organiser) a period of 3-4 months to form 15-18 groups each with about 20 members. Ninety one percent respondents expressed their opinion that the time allowed for group formation is in-sufficient. The staff can not have a clear understanding of the situation of the TG and the geographic area within a short span of time. Consequently, it causes improper selection of group members.

(2) It sometimes also violates the organisational rules such as overlapping with other NGOs, Floating members, more than one members of one family included in the group, more than three groups in a village (under the organisational principle maximum of three groups are allowed in a village) .

(3) Similarly frequent transfer of staff (75 percent response) also hampers repayment.

(4) Change of policy decisions (51 percent response) such as the increase in the amount of savings, withdrawal conditions, credit amount and repayment procedures, interest rates which are usually higher than the formal sector etc also contribute to defaults

(5) Default due to wrong selection of loanee members : It was mainly due to the following factors: (in percent)

More than one member in a family	79.70
Unmarried loanee member	53.54
Elderly loanee member	64.79
Loanee member from distinct locality	70.17
Loanee member having unemployed husband	73.83

(6) Rules and Regulations of Groups : The major factors were found as follows (in percent):

Attendance in the group	95.59
Repayment through others	80.44
Lack of adherence to the rules of the group	90.46

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Lack of mutual relations among group members 93.88

According to Proshika[26], the crucial factors responsible for dropout of the group members are as follows: (1) internal management problem of the group; (2) less frequent contact by worker with the groups; (3) inadequate access of groups to credit programme as well as savings management; and (4) natural calamities such as river erosion which causes dislocation/migration of the group members

Taking all these points into consideration, the legitimate question that needs to be addressed is that how far the NGO programmes (both credit and social) can be expanded. Since in the absence of competitive service charge, the return from the social programmes to NGOs is very low (mostly negative), it is very difficult to expand these programmes without threatening the viability of the whole NGO programmes. On the other hand, if some charges (unaffordable amount) are to be paid for social programmes, a large number of poor, particularly the HCP, will prefer not to avail this service since when the survival is the only motive of livelihood, services like social programmes are highly elastic.

(ii) Is there any Difference between MFI Members and the Dropouts ?

According to a survey conducted by BRAC, there is no significant difference between the BRAC members (n =1072) and to those who have dropped out (n=143) with respect to their initial condition, present landholding, dependency, quality of housing as measured by value of houses and per capita floor space, level of household education., food and non-food net worth. The survey also indicates that for both the drop out households (143) and existing BRAC members (1072), the percentage of households below the poverty line is almost the same (**Table 5.10**) being 52percent.

[26] Rahman A etal, 1998 p70

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Table 5.10 : Mean difference of indicators between BRAC existing members and dropouts

	Indicators	Dropouts (n=143)	BRAC (n=1072)	T Value
1	Demographic dependency ratio (percent)	48.9	51.0	- 0.50
2	Economic dependency ratio (percent)	240	246	- 0.43
3	Proportion of female income earner (percent)	9.4	9.6	- 0.11
4	Average level of household education (score)	89	99	- 1.34
5	Pre BRAC land (decimal)	37	36	- 0.35
6	Present Land (decimal)	39	42	- 0.35
7	Pre capital floor space (sft)	69	70	- 0.08
8	Value of living houses (Tk)	9106	9718	- 0. 54
9	Percent of self employed	42.7	52.2	- 2.13 **
10	Percent of wage employed	40.6	30.3	2.48 **
11	Last 3 year institutional Loan (Tk)	4377	6813	- 4.33
12	percent of BRAC to total institutional loan	52.0	82.1	- 8.64 ***
13	percent received training	21.0	26.2	- 1.35
14	percent of BRAC to total savings	8.7	86.8	- 4.40 ***
15	Total savings (Tk)	452	1245	- 6.27 ***
16	Members' annual income (Tk)	534	1094	- 2.71**
17	percent of food to total expenditure	67.8	64.1	2.89***
18	Monthly per capita expenditure (Tk0	675	687	- 0.21
19	percent Per capita calorie intake per day	2364	2306	1.25
20	Total land assets (Tk)	15931	17125	- 0.66
21	Net worth (Tk)	69212	63009	0.75
	percent below poverty line	52.4	52.1	0.09

** significant at 5 percent level, *** significant at 1 percent level Source: Husain, BRAC P 157

According to Fatimi (1998), the HCP have been left out , either by the poor themselves who keep them out because they have neither the resources to pay back, nor do they consider themselves as credit worthy or the credit programmes edge them out since the implied poor recoveries reflect poorly on the NGOs and their field workers. There may be structural factors such as size of average loans too large for the HCP to handle or the absence of soft lending terms, both of which are entry barriers for the HCP.

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It may be mentioned here that the participation in any programme is influenced by the interaction of the demand and the supply factors[27]. The demand factors depend on the judgement of the households while the supply factors are determined by the NGOs (eg whether to locate the program, whom to encourage to participate, setting eligibility criteria, etc). A simple model envisaging the following variables may explain the behaviour of participation :

$$PART = C + b_1 LNDH + b_2 LPCI + b_3 EDNHH + b_4 RCLOAN + b_5 CONT + ET$$

Where :

PART = 1 if the household participates in the programme
= 0 if the household do not participate

LNDH = Total Landholding of the household in Acres

EDNHH = Education of the household head
(1 if literate , 0 otherwise)

RCLOAN = Whether receiving loan from the NGOs
(1 if yes, 0 otherwise)

CONT = Whether NGO Workers contacted to encourage participation

C = Constant term

ET = Error Term

Since, the dependent variable is dichotomous in nature (assuming only 0 and 1 values), logistic regression is estimated. Results of a survey (carried out by Attiur Rehman, Razzaque etal , 1998) of the logistic regression indicate that increase per capita income (LPCI) and increased access to credit (RCLOAN) would increase the probability of participation as the coefficients were found significant.

[27] Zaman, H, *Microcredit Programs : Who Participates and to What Extent ?*, Working Paper Number 12, BRAC - ICDDRB, B Joint Research Project, 1996. Quoted in Rahman A etal (1998) p36

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5.7 Conclusions

The poverty pyramid of Bangladesh represents 28 percent of its population (about 30 million) as HCP who consume less than 1805 k. cal per capita per day. The major parameters characterising such population are : chronic deficit: 31 percent; housing : 31percent ; annual income up to Tk 2500 : 27 percent. Whether it is a "*pull effect*" or "*push effect*", the HCP by and large remain outside the microfinance programme. Situation analysis indicates that : HCP in general are not proportionally represented in the groups of microfinance programmes ; field workers of the MFIs sometimes try to reduce the risk of fund by including better-off members so that the weekly recovery of loans (100percent) are ensured. Their tendency is to form groups with members from better-off section within the poor who still remain within the definition of the poor ; since members have joint responsibility of repayment, they also prefer members from better-off sections and in the process the HCP are excluded.; and the requirements of regular savings and payment of weekly instalments mainly prohibit the HCP from joining microfinance programmes.

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Chapter VI

REACHING THE HARDCORE POOR : MODELS FOR OPTIMISING MFIs ' OUTREACH IN GREATER DISTRICTS OF BANGLADESH

*" NGOs in Bangladesh have already demonstrated that the position of the **marginal poor** can be improved through empowerment, education, health and other targeted interventions..... Bangladesh needs a variety of other arrangements to deal with risk on three dimensions -risk reduction, risk mitigation and risk coping. These arrangements can be individual or household based (such as preventive health care), group based (such as microcredit), market based (such as crop diversification and non farm growths) or public actions (such as macro-economic or public health policy)"*

Federick T Temple, (2000) the World Bank's Country Director, Bangladesh[1]

6.1 Introduction

This chapter examines the efficacy of MFIs in reaching the HCP. It presents locational analysis of MFIs entailing four major determinants which affect the decision(s) related to the geographical location/placement of branches of MFIs viz: (I) *poverty* condition in the targeted area ; (ii) expected level of *demand ;* (iii) the *cost* involved in providing credit services in the target area; and (iv) the *risk* factor of conducting credit operations in the target area. The Econometric Specifications and related outreach equations with regard to the placement of branches of selected MFIs (ASA,BRAC and Proshika) pertaining to poverty and risk related variables are also illustrated in this section.

In the backdrop of MFIs' inability to reach the HCP, one needs to look into various options or alternatives towards reaching the HCP. A comparative analysis of outreach of two selected safety net programmes is presented. These programmes are : (1) Food For work (FFW) and (2) Vulnerable Development Programme (VGD). The focus of analysis is mainly on their targeting (comparing beneficiaries vs non beneficiaries). The last part of the chapter provides a unique and innovative approach for determining region-wise financial requirements of microfinance in Bangladesh and respective outreach analysis and efficacy of MFIs.

[1] Fedrick, Temple, T, (2000), " *Strategies to Alleviate the Woes of Poverty*"., Country Director, The World Bank Bangladesh.

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6.2 Efficacy of MFIs : The Placement Analysis

Analysis of facts and figures indicate that all the villages covered by MFIs are not inhabited by the poor. The following table provides a cursory look on the outreach or coverage of the villages with percent coverage by govt., banks and NGOs under various types of programmes.

Table: 6.1 **Outreach of Programmes at Village Level**

Village Type	Share of Programmes (percent)					
	Governemnt			Specialised Bank	N G Os	
	FFW[2]	VGD	FEE	Grameen	BRAC	Others
Poor	53	64	50	49	52	57
Non - poor	47	36	50	51	48	43

Source: Bangladesh in the New Millenium, Community Development Library, Feb, 2000

As may be seen from the Table 6.1, the outreach of Vulnerable Group Development Programme (VGD) in terms of reaching the poor villages is greater (64 percent) compared to other similar programmes like FFW and FFE[3]. Similarly, outreach of BRAC in terms of targeting poor villages is better than the Grameen Bank.

Within the broad framework of reaching the HCP, a major issue required for examination may be whether MFIs or other poverty alleviation programmes, instead of targeting poor areas, should target households with personal attributes that foster poverty, no matter where they live ? Ravallion M and Wooden Q (1997) in their paper made an attempt to address this question with arguments against it.

Poor areas are not poor just because households with readily observable attributes that foster poverty are geographically concentrated. There appears to be sizeable spatial differences in the household characteristics. The results of the study by Ravallion M. (1998) reinforce the case for anti-poverty programmes targeted to poor

[2] Food For Work and VGD Vulnerable Development Groups programmes are collaborative programmes of the Government of Bangladesh and the International donor agencies.

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areas even in an economy with few obvious impediments to mobility. However, the limitation of the paper is that its results do not tell us what aspects of poor areas are giving rise to poverty. Whether it is the lack of physical infrastructure or something else, such as poor schools or heterogenity in the unreached household characteristics. Ravallion M, (1997) in another paper argues that for targeting purposes, comparisons of poverty rather than mean consumption are often relied upon in order to place more emphasis on less favoured households.

One of the possible indicators of the efficacy of MFIs, may be to evaluate whether the pattern of placement of branches of MFIs at the grassroots levels really match the needs to cater the demand in terms of reaching the HCP. The analysis requires, first to identify the criteria for placement of branches. Certain determinants associated with these criteria need further analysis with selected parameters of placement of branches of MFIs. This section provides such analysis.

6.2.1 Determinants of Placement of Branches

The placement of NGO branches and client coverage under their operations are among the most important determinants in the outreach analysis of MFIs. It will be helpful to understand whether MFIs are targeting their services to the poor in relatively underdeveloped or disadvantaged region or do they locate their branches in relatively better endowed areas. Sharma and Zeller (1999) in their study using secondary data from 391 Thanas (administrative unit in Bangladesh) examined three NGOs viz: ASA, BRAC and Proshika. The analysis indicates that even though NGOs were attentive to reducing poverty, branches were more likely to be established where there was better access to transport and communication infrastructure. Consequently, the NGO services are inclined towards the poor who reside in relatively developed area rather than the poor in more remote and less developed regions. One hypothesis could be that *NGOs* locate their branches in Thanas that have a larger proportion of households owning less than 0.5 acre

[3] FFE stands for Food For Education. It is a specialized programme under food is provided for the children and or their mothers in order to increase literacy (particularly the female education) in the country

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of land - as this criterion most closely defines the target households of most of the NGOs in Bangladesh.

6.2.2 Econometric Specifications and Results

If the objective function is to maximise profits, then the decision to place a branch location is justified to be based on investment theory. Since NGO's primary objective is not to maximise profit, hence the placement rules followed by the NGOs may be expressed (Sharma, 1999) as the function of the variables ***(poverty, demand, cost, risk)*** expressed in the following linear equation:

$$Bi = f\,(Pi, E\,(Di), E\,(Ci).\ Ri) \qquad \text{----------} \quad (1)$$

Where

Bi	is the objective function representing placement of branches
Pi	is vector describing poverty condition in the targeted area. It may be the Thana (lowest administrative unit) in case of Bangladesh
E (Di)	is the expected level of demand for credit services in that Area
E (Ci)	is the expected level of cost of providing services
Ri	is index of risk of conducting credit operation in the targeted area

In poverty targeting, two further measures (as also proposed in Sharma, Zeller study,1999) are : Thana-wise literacy rates and Thana-wise level of "distress" index. The distress index is developed by Helen Keller Institute[4] (HKI) in Dhaka which has its focus on the vulnerability in its programme. Literacy rates generally are highly correlated with poverty levels and HKI stress index combines information on vulnerability to floods/natural disaster which frequently occur in Bangladesh, general wage levels and availability of irrigation facilities

[4] With the support from USAID, The Nutrition Surveillance Project (NSP) is operational since more than ten years. NSP is a joint initiative of the Institute of Public health Nutrition and Helen Keller International, implemented in collaboration with 19 NGOs in Bangladesh. The survey follows a multistage sampling design where 40 clusters (mauza) are randomnly selected from each of the six administrative divisions. These 40 clusters are chosen from four thanas that were initially randomnly selected from each division.

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It is important to know the level of demand of microfinance[5] to ensure right targeting at right place avoiding the area where such demand is non-existing or lower than minimum threshold level. It is expected that the demand for microfinance will be more in the areas which are relatively more constrained by lack of infra-structural facilities like transportation, product markets and market information.

Hence the **demand** component of the expression for microfinance may be expressed as :

$$E(Di) = g(Wi) \quad \text{----------} \quad (2)$$

Where the vector Wi consists of thana level variables which affect the level of the microfinance demand. It includes the level of physical infra-structural development eg access road, electricity, irrigation ; agro-climatic conditions and general income levels and the level of urbanisation of the local economy.

Since *profit seeking is not the objective of the NGOs*, therefore other cost related issues important in placement of a branch are : general security concerns involving handling of cash. If the NGOs are using the services of the commercial bank branches, then they will prefer to locate their branch which is near by or accessible to them. Keeping in view the unit level expected delivery cost variables ie vector Zi, , the expected **cost** function may be expressed as :

$$E(Ci) = g(Zi) \quad \text{----------} \quad (3)$$

In practice, vectors Wi in the expression (2) and Zi in expression (3) are likely to be similar if not identical. In the MFIs' programme, an important factor is to maintain high repayment rates. On this basis, they get high ranking for getting more funds from donors, government, banks, specialised financial institutions such as PKSF. The objective of maintaining high repayment rate affect the placement of their branches

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With each cluster, 30 target households are selected using a systematic sampling. Thus during each round a total of 7200 households are selected and constitute the rural sample.

[5] Using Linear Programming Technique demand of the microfinance at each of the 21 regions (greater districts) of Bangladesh at urban, rural and national levels has been determined in the next section (5.4) of this chapter

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avoiding areas with low marginal returns due to backwardness, disasters prone areas. The expected **risk** function may be specified as :

$$Ri = g(Vi) \quad \text{----------} \quad (4)$$

The variables included in Vi are literacy rate, distribution of land, HKI distress indicators. Some details of distress indicators may be seen in the chapter on MFIs of this study.

The linear expression of the efficacy of MFIs as given in expression (1) after subtracting from (2) - (4) will become as:

$$Bi = Pi\,\alpha + Wi \ \ldots \ + Zi\,\beta + Vi\,\delta \quad \text{-------} \ (5)$$

It is difficult to find P,W,Z,V (poverty, demand, cost and risk) separately . For instance, it is difficult to find variables that affect poverty levels but not credit demand, or risk of conducting microfmance business. A more practical formulation may therefore be regarded the elements in P,W,Z and V to be common and represented by vector Xi as given below:

$$Bi = \sum \eta\, Xi + \mu\, d + e \quad \text{-------} \ (6)$$

Interpreting its coefficient $\eta = (\alpha_\iota + \ldots_\iota + \beta_\iota + \delta_\iota)$ as the combined effects of the four determinants of placement. Finally the infrastructure, urbanisation, other community level endowments are likely to affect jointly the levels of poverty as well as demand for microfinance services, the cost of microfinance services and the risk of conducting business. Similarly the possible natural disasters simultaneously affect poverty, credit demand patterns and the risk and cost of operating microfinance business.

Another consideration is the effect of unobservable variables. If placement of government infrastructure progarmmes as well as levels of poverty are functions of unobservable factors such as political considerations, agro-climatic potentials, then exclusion of such factors in equation (6) is likely to lead to biased estimates of the ηs. In order to minimise bias arising out of location-specific unobserables, a district level effect of ηd is included in the equation (6). Since Bi in equation (6) is a binary dependent

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variable taking the value equal to one whenever there is branch of the NGO in a Thana and equal to zero otherwise, the equation is estimated using the fixed effects logit estimation that wipes the effects of district level unobservable (s).

The vector X in (6) contains the following variables:

Poverty -related variables : *Landsize* - the percentage of people in the Thana that are below 0.5 acres in size; *Literacy* - the percentage of population literate in the thana; *Electricity* - the percentage of villages electrified in the thana; *Market* - the number of market centres in the thana; *Density* - the population density of the thana ; *Urbanisation* - the percentage of urban population in the thana; *Road* - the kilometer of metaled road per thousand persons in the thana; *Hospital* - the number of population per hospital bed in the thana; *Doctor* - the number of population per doctor in the thana; *Postoffice* - the number of postoffices in the thana

Risk related variables: *Distress* - the thana wise distress index is computed by HKI . All data except for distress level are published in various issues of the statistical year book of Bangladesh published by BBS (1994). Data on the dependent variables can be obtained from different MFIs.

Econometric Results of Outreach Analysis of MFIs at Thana Level

The estimated logit equation where the dependent variable takes on a value of one when a branch of at least one of the three NGOs (ASA, Proshika, BRAC) exists in the thana and zero otherwise is presented in the following **Table 6.2**:

Table : 6. 2 Placement of all NGOs estimated fixed - effects logit equation (N=391)

No	Variables	Coefficients	t-value
1	Landsize	0.0242372	0.987
2	Literate	-0.102779	-3.631
3	Electricity	0.0156035	0.842
4	Market	0.0144544	1.162
5	Density	-0.0002954	0.593
6	Urban	0.0099031	0.893
7	Road	1.373573	2.156**
8	Hospital	$4.11 * 10^{-6}$	0.294
9	Doctor	$-4.30 * 10^{-6}$	-1.241
10	Postoffice	0.0344091	1.875 *
11	Distress	-3.255817	-2.684 **

- Significant at 10 percent level

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** Significant at 5 percent level Source: Sharma and Zeller, World Development Vol 27 p2129

As it may be seen in the above **Table 6.2**, the coefficients of Road and Postoffice are positive and significant. Both of these are among the infra-structural variables measuring the extent of transportation and communication facilities in the thana. The percentage of urban population in the thana and the population density are not statistically significant. Neither are the two health service indicators ie hospital and doctor , the number of market centres in the thana or the percentage of villages that are electrified in the thana (electricity).

It therefore appears that the decisions related with the placement of branches of MFIs are attentive to transportation and communication facilities but that the net effect of other infra-structural facilities measured or proxied by population concentration , urbanisation and the availability of medical and health services appears to be insignificant. The co-efficient of literate is negative and strongly significant. Hence placement of branches appears to respond to literacy rates -with more branches being placed in thanas with lower literacy rates.

It may be noted that if considerations of demand, costs, and risks favour thana with higher literacy rates that is if $(\beta_{literate} + \gamma_{literate} + \delta_{literate}) > 0$ then it may be concluded that the poverty consideration $(\alpha_{literate})$ is significantly large to overturn the combined positive effect so that the net effect is

$$|\alpha_{literate}| > |\beta_{literate} + \gamma_{literate} + \delta_{literate}|.$$

The coefficient of the landholding variable land size has a similar interpretation that is the poverty effects of the smaller land size more than outweighs the combined effects on credit demand and risk costs. Land size , however, is not significant at the 10 percent level. The co-efficient of distress is negative and significant at 5 percent level. MFIs are thus less likely to place branches in high distress locations.

Overall, the estimated branch placement equation suggests that while MFIs appear to respond to poverty (at least to the extent that they correlate with literacy levels),

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they are more likely to place branches in locations that already have favourable infrastructure. They also are less likely to place branches in high distress location. It implies that outreach of MFIs is limited to better off segment of the population.

Econometric Specifications of Placement of Branches of selected MFI at Thana Level

The equations describing thana level placement of branches of ASA, BRAC and Proshika are presented in the **Tables 6.3 to 6.5**:

Table : 6.3 Placement of ASA : Estimated fixed - effects logit equation (N=139)

No	Variables	Coefficients	t-value
1	Priorcomp	-2.054474	-1.810 *
2	Landsize	0.1028597	• **
3	Literate	-0.0472607	-0.839
4	Electricity	0.00561694	0.145
5	Market	0.0290323	1.249
6	Density	-0.0020257	-1.543
7	Urban	-0.0476018	-0.957
8	Road	5.032872	• **
9	Postoffice	0.0317485	0.979
10	Distress	-1.613692	-0.601

• Significant at 10 percent level
** Significant at 5 percent level Source: Sharma and Zeller, World Development Vol 27 p2130

Table : 6.4 Placement of BRAC : Estimated fixed - effects logit equation (N=251)

No	Variables	Coefficients	t-value
1	Priorcomp	-1.767272	-1.938 **
2	Landsize	0.0713646	• **
3	Literate	-0.094561	-1.822
4	Electricity	0.0418247	1.431
5	Market	0.009626	0.572
6	Density	0.0001987	0.515
7	Urban	0.0215618	1.394
8	Mtropopt	-0.3358834	-0.2524
9	Postoffice	0.0452446	1.683 *
10	Distress	-4.187979	-2.592 **

• Significant at 10 percent level
** Significant at 5 percent level Source: Sharma and Zeller, World Development Vol 27 p2130

Table : 6.5 Placement of Proshika : Estimated fixed - effects logit equation (N=308)

No	Variables	Coefficients	t-value
1	Landsize	-0.0141334	-0.391
2	Literate	-0.0762417	-2.205 **
3	Electricity	-0.023736	-0.807
4	Market	0.0161901	0.950
5	Density	-0.0000959	-0.155

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6	Urban	0.0116141	0.822
7	Road	0.8796203	1.096
8	Postoffice	-0.0078585	-0..296
9	Distress	0.5198919	0.310
10		-1.613692	-0.601

** Significant at 5 percent level Source: Sharma and Zeller, World Development Vol 27 p2130

In the equations, most of the explanatory variables are the same as defined before except for one extra consideration ie the response of an MFI to pre-existing branches of other MFIs. On one hand, may be the cause that MFIs prefer to work in exclusive markets, in the absence of any competition or any other types of influences from other providers of similar services. On the other hand, the case may also be that pre-existing branches of other MFIs in a particular location may signal to a potential entrant. Clustering of MFIs may be observed.

How MFIs respond to pre-existing branches of other MFIs is an empirical question. For this reason an indicator variable Priorcomp[6] that takes the value one whenever the branch of another NGO in the same thana existed prior to the placement of branch of the NGO concerned is used in regression equation. For example in the BRAC equation, the indicator variable would equal to one whenever an ASA branch existed in the thana prior to the establishment of BRAC branch and would be equal to zero otherwise. Due to non availability of data for Proshika, the indicator Priorcomp is not included. Therefore the indicator Priorcomp are used only in BRAC and ASA regressions. The coefficients of priorcomp in BRAC and ASA both are negative and significant indicating that both these MFIs are less likely to establish branches in locations that already have a competitors branch .

The coefficient of the percentage of population owning less than half an acre of land (landsize) is positive and significant at 5 percent level in both the ASA and BRAC equations though this is not the case with Proshika equation. On the other hand the coefficients of literacy rate (literate) are negative in all the three NGO - specific equations, though they are statistically significant only in BRAC and Proshika equations.

[6] The variable Priorcomp represents the availability of the branch of another NGO before the placement of the branch of the NGO concerned.

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It may be noted that Literacy is the only significant variable in the Proshika equation. The MFI specific equations are thus indicators of placement decisions, especially BRAC which responds to both literacy and landholding levels.

The transport and communication variable ie Postoffice is positive and significant at 10 percent level in case of BRAC while Road is positive and significant in the ASA equation. This is an interesting result as BRAC aims to conduct its own banking services in the near future while ASA will continue to use banking services offered by commercial banks. It is therefore important for ASA to locate branches in areas that have better access to transport infrastructure because it is this type of area where commercial banks are located.

The above analysis tends to lead to the conclusion that placement of MFI branches i.e their outreach[7] facilitation at gross-root level are by and large not positively correlated with communities where there is lack of infrastructure. There exist no branches where there is a need with particular reference to poverty concentrated disadvantaged areas.

6.2.3 Equation of Selected MFIs Outreach at Thana Level

The econometric specification of the outreach regression equations is similar to the branch placement equation except that the dependent variable Outreach is a truncated variable ie client coverage is observed only in the thanas that have branches of MFIs. An additional variable Years is used in the outreach equation to control for the fact that client density is expected to increase with years of operation of the branch. Years is the number of years for which the branch has been in operation. The outreach equation (with absence of years data of Proshika) for BRAC and ASA was estimated by computing years as the sum of years for which branches of both ASA and/or BRAC in the thana had been operational. Accordingly, the combined outreach equation for ASA and BRAC is presented in the following Table 6.6

[7] Outreach may be defined as the participation density measured by the number of participants in a specific programme per 1,000 people in the thana (administrative unit) as an indicator of client outreach.

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Table : 6.6 **Outreach Equation : BARC and ASA (N=121)**

No	Variables	Coefficients	t-value
1	Years	3.6693	6.305 **
2	Landsize	-1.1799	-1.782 **
3	Literate	0.22979	0. 377
4	Electricity	$0.83156 * 10^{-1}$	0.219
5	Market	-0.28682	-1.164
6	Density	$-0.77299 * 10^{-2}$	-0.569
7	Urban	$-0.89751 * 10^{-1}$	-0.283
8	Road	-0.62777	-0.023
9	Postoffice	$-0.84270 * 10^{-1}$	-0.213
10	Hospital	$-0.15839 * 10^{-3}$	-0.595
11	Doctor	$-0.33360 * 10^{-4}$	-0.462
12	Distress	53.777	4.175 **
13	Lambda	-5.4164	-0.629

** Significant at 5 percent level Source: Sharma and Zeller, World Development Vol 27 p2132

In the outreach equation presented in **Table 6.6** only the coefficients of three variables are significant. These are Years, Landsize and Distress. The coefficient of years is positive and highly significant, indicating that MFIs have expanded their client base through time. Outreach is significantly higher in thanas that have higher distress index. This result is completely opposite to that of the placement equation which indicated that placement rule disfavoured high distress areas. Outreach is significantly lower in thanas that have a higher proportion of marginal farmers, as shown by the negative coefficient of Landsize. The outreach equations for ASA, BRAC and Proshika are presented in tables 6.7 to 6.9

Table 6. 7 : **Outreach Equation : ASA (N=30)**

No	Variables	Coefficients	t-value
1	Years	1.8775	2.360 **
2	Landsize	-0.64975	-1.803 *
3	Literate	0.14303	0. 727
4	Electricity	0.26966	0.782
5	Market	-0.25883	-2.018 **
6	Density	$0.64746 * 10^{2}$	1.137
7	Urban	-0.16404	0.786
8	Road	22.129	1.164
9	Postoffice	-0.13857	-0.591
10	Hospital	$0.20427 * 10^{3}$	1.229
11	Doctor	$0.58186 * 10^{4}$	0.896
12	Distress	29.506	3.129**
13	Lambda	-6.2603	1.365

** Significant at 5 percent level Source: Sharma and Zeller, World Development Vol 27 p2132

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Table : 6.8 Outreach Equation : BRAC (N= 69)

No	Variables	Coefficients	t-value
1	Years	11.729	4.355 **
2	Landsize	-1.3952	-1.252
3	Literate	0.75704	0. 630
4	Electricity	0.24252	0.419
5	Market	-0.23829	-0.608
6	Density	$0.25463 * 10^{2}$	0.098
7	Urban	0.38024	0.752
8	Road	-46.715	-1.053
9	Postoffice	0.20706	0.373
10	Hospital	$-0.24825 * 10^{3}$	-0.689
11	Doctor	$-0.14880 * 10^{4}$	-0.110
12	Distress	27.334	1.366
13	Lambda	0.39479	0.039

** Significant at 5 percent level Source: Sharma and Zeller, World Development Vol 27 p2134

Table 6.9 ; Outreach Equation : PROSHIKA (N=30)

No	Variables	Coefficients	t-value
1	Landsize	-1.2036	-1.474
3	Literate	-0.15589	0.256
4	Electricity	0.25219	0. 343
5	Market	-0.67597	-1.844
6	Density	$0.18198 * 10^{4}$	1.130
7	Urban	1.0296	2.511 **
8	Road	54.068	1.510
9	Postoffice	-0.65262	-1.059
10	Hospital	$0.37920 * 10^{3}$	1.258
11	Doctor	$-0.13093 * 10^{3}$	-1.479
12	Distress	91.139	5.294 **
13	Lambda	-16.524	-1.846
		-6.2603	1.365

** Significant at 5 percent level Source: Sharma and Zeller, World Development Vol 27 p2132

The above analysis provides evidence that the branch level outreach structure of these MFIs tends to be located in poor pockets of relatively better developed areas than in the remote and less developed regions. It leads to further strengthening of the hypothesis that *MFIs by and large have not been able to reach the HCP.* In order to attain the objective of reaching the HCP, one needs to look for some alternative mechanisms through exclusive or safety net programmes which are discussed and analysed in the following section (section 6.3).

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6.3 Reaching the HCP through FFW and VGD Programmes

It will also be relevant and appropriate to look into safety net programmes or exclusive programmes which are aimed at reaching the HCP. A field survey in Bangladesh (Rahman A, 1998) suggests that most of the HCP were eager to get relief materials rather than credit. Hashmi (1997) pointed out that *microcredit is not necessarily the best way to bail the poorest of the poor out of poverty. There is a strong case for a 'special safety nets' programme for them.* Therefore, a different approach is required to address the problem of HCP. Realising this scenario, there are some initiatives already undertaken in Bangladesh by implementing HCP focused programes such as : Income Generation for Vulnerable Group Development (IGVGD) programme; Rural Maintenance Programme (RMP) ; Food for Work Programme (FFW); Integrated Food Security Programme (IFSP); GB's goat leasing programme; Ashrai (an NGO's implemented programme by promoting local level organisations called Community Based Organisations to undertake poverty alleviation programmes) working for the Tribals of Barind Tracts in Bangladesh. These programmes with some comparative advantages, have been able to achieve considerable success in reaching the HCP with some degree of varying performance. But these are not enough when compared to the quantum of the problem as a whole.

" *Exclusiveness, says* ***Prof. Yunus*** *of Grameen Bank, should not limit itself to the client level, it should extend upto the implementing machinery level too. A delivery mechanism which is entrusted to deliver all kinds of goods to all kinds of people will always cater to the richest and most powerful among the clientele. Specialised delivery mechanisms for the PFPs (Poverty Focused Programmes) will require specialised people starting from planning and designing level down to the person to person contact level in the field. If one accepts the proposition that the PFPs are a new breed of programmes, one has to agree that they need a new breed of people to put them together and to manage them. It is another inexorable law of nature. If one has to deliver any thing to the*

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poor, the delivery mechanism has to be designed and operated exclusively for the poor. There is no two ways about it" [8]

In Bangladesh, the major safety net programmes are collaborative in nature being implemented jointly by the GOB and the NGOs. These programmes involve substantial donor funding. The major concerns /indicators related to collaborative programmes are related to : (a) *Regional/Spatial factors* (whether targeted to the economically disadvantaged areas ie the placement of branches of MFIs or Exclusive Programmes; (b) *Soocial factors (*whether the MFIs and (or) the Exclusive programmes have been able to target the HCP ; and (c) *Seasonal* factors (whether it has been timely targeting ie providing assistance at the time/season of the need of HCP).

In order to illustrate the institutional mechanism adopted in reaching the HCP, two major programmes currently in operation in Bangladesh are discussed in this section. These are Food-for-Work and the Vulnerable Group Development Programme. These two programmes account for about 43 percent of the total resources released through food - assisted programmes in 1994-95 (Centre for Policy Dialogue 1997).

Bangladesh has been the largest recipient of WFP for aid for development projects since 1989 and WFP assistance has become an integral component of government plans in poverty alleviation strategy. At present WFP provides food worth 78 million US $ annually through multilateral and bilateral food aid resources through a nationwide FFW and VGF programmes. Food is distributed under the food for work (FFW) and vulnerable groups feeding (VGF)/ vulnerable group development (VGD) programmes. The major components[9] of the programmes are: Start up support including 30 Kg of free wheat per month per woman beneficiary of IGVGD programme for an initial 18 months and cash support of Tk 425 per month to each agroforestry woman for 12 months; Training in marketable skills; Credit for IGAs etc.

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[8] Source APDC (1991), Reaching out Effectively, Eds Getubig and Shams p 40.

[9] Access, BRAC, 2000

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The comparison of the incidence of HCP as beneficiaries of FFW and VGD programmes with respect to selected socio-economic characteristics of households is given in the **Table 6.10**

Table 6.10 : Comparison among Beneficiaries of FFW and VGD Programmes

Socio-economic characteristics Households	Beneficiary	
	FFW	VGD
Per Capita Income (Monthly) Tk	222	174
Per Capita Expenditure (Monthly) Tk	221	170
Per Capita Food Intake (gm)	756	799
Land size owned (dec)	26	13
Land size operated (dec)	32	14
Literacy Rate (5 +) percent	13.2	13.9
Level of education (SSC +)	0.6	0.3
Single Person Nuclear family (percent)	7.44	37.1
Size of Household	4.62	4.00
Access to immunization	37.6	30.3
Agriculture as main occupation (percent)	86.8	69.2
Non-Agric. as main occupation (percent)	13.2	30.8

Source : Centre for Policy Dialogue, 1997

Similarly, based on the same socio-economic characteristics a comparative analysis of non-beneficiaries of FFW and VGD programmes is summarised in the **Table 6.11**

Table 6.11 : Comparison among Non beneficiaries of FFW and VGD Programmes

Socio-economic characteristics Households	Non-Beneficiary	
	FFW	VGD
Per Capita Income (Monthly) Tk	212	173
Per Capita Expenditure (Monthly) Tk	212	169
Per Capita Food Intake (gm)	709	760
Land size owned (dec)	19	9
Land size operated (dec)	23	11
Literacy Rate (5 +) percent	12.0	12.5
Level of education (SSC +)	0.5	0.3
Single Person Nuclear family (percent)	6.56	36.0
Size of Household	4.55	3.80
Access to immunization	35.5	29.1
Agriculture as main occupation (percent)	79.2	67.6
Non-Agric. as main occupation (percent)	20.8	32.4

Source : Centre for Policy Dialogue, 1997

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The comparative analysis among the two programmes reveals that the share of the poorest segments is relatively more in VGD compared to FFW. Substantial difference can be seen from the targeting aspects. The beneficiaries of VGD programme are relatively more poor (income being Tk 174 per month) than the beneficiaries of FFW programme (income being Tk 222 per month). Other factors such as expenditure, land size etc also support this evidence as shown in table 6.10. One can also see that non-beneficiaries of VGD have also low income (being Tk 173 per month) compared to non beneficiaries of FFW (being Tk 173 per month) as shown in table 6.11. Interestingly, the per capita income of non-beneficiaries of VGD beneficiaries is even less than the per capita income of non-beneficiaries of FFW programme.

The comparison among beneficiaries of FFW and VGD programmes on the basis of household expenditure classification (categorised into moderate poverty line, food poverty line and the extreme poverty line with respect to headcount, poverty gap and squared poverty gap) is summarised in the **Table 6.12**

Table 6.12 : Impact of FFW and VGD Programmes (Per household expenditure classification of Beneficiaries)

Per Household Expenditure Classification	Beneficiary	
	FFW	VGD
I **Moderate Poverty Line**		
Head count	91.6	96.6
Poverty Gap	45.0	57.4
Squared Poverty Gap	25.7	37.1
II **Food Poverty Line**		
Head count	76.9	90.6
Poverty Gap	29.6	42.3
Squared Poverty Gap	14.4	24.3
III **Extreme Poverty Line**		
Head count	63.4	83.2
Poverty Gap	21.1	34.2
Squared Poverty Gap	9.4	17.6

Source : Centre for Policy Dialogue, 1997 : Survey carried out by BBS (1991-92)

Under the FFW programme, the poverty line expenditure per month per household is Tk 1751, for food poverty line Tk 1268 and extreme poverty line is Tk 1051

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whereas under VGD programme , the poverty line expenditure per month per household is Tk 1516, for food poverty line Tk 1098 and extreme poverty line is Tk 910

Based on the same household characteristics as identified above , the impact of FFW and VGD programmes from the view point of their non-beneficiaries is summarised in **Table 6.13**

Table 6..13 : Impact of FFW and VGD Programmes (Per household expenditure classification of Non-beneficiaries)

Per Household Expenditure Classification	Non-beneficiaries	
	FFW	VGD
I **Moderate Poverty Line**		
Head count	95.1	97.4
Poverty Gap	50.3	60.6
Squared Poverty Gap	30.0	41.0
II **Food Poverty Line**		
Head count	84.2	92.2
Poverty Gap	34.8	47.4
Squared Poverty Gap	17.8	28.4
III **Extreme Poverty Line**[10]		
Head count	72.3	85.9
Poverty Gap	25.8	38.7
Squared Poverty Gap	12.0	21.5

Source : Centre for Policy Dialogue, 1997 : Survey carried out by BBS (1991-92)

It reveals that extreme poor who are participants of of VGD programme are relatively more in numbers (being 83 percent) compared to WFF participants (being 63.4 percent). The difference is very significant amounting to about 20 percent. Similarly the proportion of VGD beneficiaries with respect to poverty and poverty gap is more when compared to FFW beneficiaries as shown in table 6.12. It provides enough evidence leading towards drawing conclusion that VGD has performed relatively better in terms of targeting and reaching the hardcore poor.

[10] Extreme Poverty is synonymous to the hardcore poverty

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Analysis of APT (Analysis of Poverty Trends) data indicates that the share of households in the three lowest expenditure groups belonging to the poorest category is about 74 percent in case of FFW and 93 percent in case of VGD beneficiaries which may be compared to only 23 percent observed for the rural areas as a whole as reflected from the Table **6.14 and Table 6.15** .

Table: 6.14 : VGD Beneficiaries compared with Rural Expenditure Distribution

Class interval of monthly Household Expenditure	VGD Beneficiary (October, 1998)		VGD Beneficiary (April, 1990)		All Rural Households (1988-89)	
	percent of Household	percentof Expe-nditure	percent of Household	percent of Exp-nditure	percent of Household	percent of Exp-nditure
< 750	66.53	47.17	56.08	37.11	.5.05	1.20
750-999	19.18	23.52	23.89	27.91	7.73	2.84
1000-1249	7.16	11.71	9.31	12.78	9.96	4.67
1250-1499	4.11	8.40	6.64	11.77	10.28	5.86
1500-1599	2.13	5.48	2.67	5.81	19.61	14.19
2000-2499	0.32	1.07	1.06	3.29	14.64	13.64
2500-2999	0.20	0.83	0.30	1.09	9.88	11.22
3000 +	0.37	1.82	0.05	0.24	22.85	46.38
Total	**100**	**100**	**100**	**100**	**100**	**100**

Table: 6.15 FFW Beneficiaries compared with Rural Expenditure Distribution

Class interval of monthly Household Expenditure	FFW Beneficiary (1988-89)		All Rural Households (1988-89)	
	percent of Household	percentof Expe-nditure	percent of Household	percent of Exp-nditure
< 750	33.16	17.79	.5.05	1.20
750-999	24.45	19.96	7.73	2.84
1000-1249	15.78	16.77	9.96	4.67
1250-1499	11.05	14.35	10.28	5.86
1500-1599	9.94	16.23	19.61	14.19
2000-2499	2.18	4.65	14.64	13.64
2500-2999	1.23	3.25	9.88	11.22
3000 +	1.76	7.00	22.85	46.38
Total	**100**	**100**	**100**	**100**

These tables suggest that beneficiaries of these programmes are among the households belonging to the poorer section.

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synonymous to the hardcore poverty

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Land ownership information also indicates that these programmes are targeting the poorer groups. FFW has 74 percent and VGD has 93 percent of households who own less than 0.5 acres, compared with about 50 percent for all rural households during 1988-89 as shown in the **Tables 6.16 - 6.19**

Table 6.16 : Land ownership of FFW beneficiaries and Non-beneficiaries (1989)

Landownership (dec)	Beneficiaries (N = 1920)	Non-beneficiaries (N=1920)
< 5	26.98	34.79
5-10	19.64	25.00
11-20	11.20	10.00
21-30	60.25	3036
31-50	90.58	8.28
51-75	60.72	5.11
76-99	30.80	2.24
100 +	15.83	9.22
Total	100	100

Source : Centre for Policy Dialogue, 1997

Table: 6.17 : VGD Beneficiaries by Land ownership (percent distribution of household)

Landownership (dec)	VGD Beneficiary (N = 1920)		Non-beneficiary (N = 1920)	
	1988	1990	1988	1990
< 5	47.98	45.21	52.97	54.64
5-10	30.88	32.19	24.95	27.92
11-20	9.74	9.79	9.84	7.55
21-30	3.54	3.07	3.76	1.82
31-50	3.59	5.47	4.42	3.75
51-75	1.46	1.67	1.35	1.72
76-99	0.78	0.52	0.94	0.36
100 +	2.03	2.08	1.77	2.24
Total	**100**	**100**	**100**	**100**

Source : Centre for Policy Dialogue, 1997

Table 6.18 : Average consumption by Household Expenditure Groups
A Comparison between VGD Beneficiaries and Rural Distribution

Monthly Household Expenditure	FFW Beneficiaries (1988-89)		Rural Household Expenditure (1988/89)	
	percent of Household	Average Monthly Consumption	percent of Household	Average Monthly Consumption
< 750	66.53	470.00	5.05	572.89
750-999	19.18	812.98	7.73	883.98
1000-1249	7.16	1083.76	9.96	1127.22
1250-1499	4.11	1354.60	10.28	1370.47
1500-1599	2.13	1708.06	19.61	1739.97
2000-2499	0.32	2218.46	14.64	2240.83
2500-2999	0.20	2759.82	9.88	2728.57
3000 +	0.37	3259.88	22.85	4882.69
Total	**100**	**100**	**100**	**100**

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Source : Centre for Policy Dialogue, 1997

The average consumption of FFW beneficiaries is consistently lower than the average consumption of the rural area as a whole. The difference, as it may be seen in **Table 6.19** among the lowest income groups is about 5 percent for the two lowest expenditure groups. This trend is more sharp in case of VGD beneficiaries. For instance the share of FFW households living in the lowest expenditure group is 33 percent compared with 66 percent for the VGD programme.

Table 6.19 : Average consumption by Household Expenditure Groups
A Comparison between FFW Beneficiaries and Rural Distribution

Monthly Household Expenditure	FFW Beneficiaries (1988-89)		Rural Household Expenditure (1988/89)	
	percent of Household	Average Monthly Consumption	percent of Household	Average Monthly Consumption
< 750	33.16	548.85	5.05	572.89
750-999	24.45	834.87	7.73	883.98
1000-1249	15.78	1087.04	9.96	1127.22
1250-1499	11.05	1327.86	10.28	1370.47
1500-1599	9.94	1670.33	19.61	1739.97
2000-2499	2.18	2179.42	14.64	2240.83
2500-2999	1.23	2697.42	9.88	2728.57
3000 +	1.76	4067.03	22.85	4882.69
Total	**100**	**100**	**100**	**100**

The foregoing analysis suggests that VGD beneficiaries are targeted from more poorer groups than FFW beneficiaries. VGD are supposed to be recruited from amongst the destitute women, while the FFW in general tries to respond to the problem of agricultural labourers who may fail to secure adequate lean season employment through the normal market mechanism. In relative terms, the FFW labourer households are socially less vulnerable and economically better-off than the groups of the female poor accessing VGD programmes.

6.4 Regional Analysis of MFIs Outreach: Multiple Regressions

The regression models presented in this section attempt to examine MFIs efficacy in targeting the poor households in various regions of the country. The output of the LP model (estimates of loans required by 21 regions) has also been included in the framework of regression analysis to account for financial requirements. The selected

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outreach parameters (number of members and the amount of loan disbursed) of selected MFIs (ASA and BRAC) has been compiled from the data collected from the head-offices of the respective MFIs. The analysis has been carried out with respect to (a) membership and (b) loan amount disbursement by developing Multiple Regression Models.

6.4.1 Outreach Analysis by Membership

The following **Table 6.20** provides a summary of region-wise number of poor households (Rural)[11] and the number of members of ASA, BRAC and Proshika .

Table 6.20: Outreach Analysis : Region-wise Number of Poor Households and the number of members of Major NGOs

Sl No	Region	No. of Poor Rural Households (As of April, 1999l)	Number of members of ASA (as on Dec 1999)	Number of members of BRAC (as on Dec 1999)	No. of members of Grameen Bank (As on Mar 2000)	Number of members of Proshika (as on March 2000)	Number of members of MFIs[12] (as of June, 1999
1	Bogra	277586	56743	195032	241884	85661	72377
2	Chittagong	318644	34659	62298	118012	121901	80169
3	Comilla	641817	84365	147200	117912	80719	37566
4	Dinajpur	301923	31977	105722	158962	19195	111611
5	Faridpur	511667	54164	326499	132345	97174	60025
6	Khulna	292000	31093	82137	123693	77485	9269
7	Noakhaili	371427	76598	78702	92583	83300	31233
8	Patuakhaili	205660	66057	49896	137226	26571	10539
9	Rajshahi	456603	96883	243353	185859	131285	41452
10	Rangpur	728569	56521	328001	244167	58807	70751
11	Sylhet	487720	36833	156656	138235	344	16399
12	Tangail	276086	24678	96283	203241	117201	195789

Data Sources: BBS-CIRDAP Survey 1999; Various reports from the selected MFIs; CDF Statistics Vol 8 , Grameen Bank Circular April, 2000

[11] Rural number of poor households data has been considered for analysis as the total disbursement of reported 524 NGOs (being Tk 77352 million) has the breakup of 94.47 percent in rural areas and the rest 5.53 is in urban areas.(Source CDF Statistics Vol 8, as of June, 1999)

[12] MFIs Exclding : ASA, BRAC and, Proshika as per statistics of CDF vol 8

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Taking the number of poor households as dependent variable, Y and ASA, BRAC, Proshika and MFIs members[13] as the explanatory variables, a regression model can be developed as follows:

$$Y = \lambda + \beta_1 X_1 + \beta_2 X_1 + \beta_3 X_3 + \beta X_4 + \beta X_5 + \in$$

Where:

Y	represents the number of poor households
λ	Constant
X_1	Number of ASA's members
X_1	Number of BRAC's members
X_3	Number of Grameen Bank members
X_4	Number of Proshika's members
X_5	Number of MFIs 's members
$\in$	Degree of Error

β_1 , β_2 , β_3, , β_4 and β_5 are the parameters to assess the extent of change that will affect the coverage of potential number of poor households in the rural areas occurring below the poverty line. Taking the number of poor households below the poverty line as dependent variable, the SPSS results (**Appendix: A6.2**)of the above regression model (with all the above MFIs as explanatory variables) indicate that:

- *The Analysis of Variance Table (ANOVA) indicates an error value of 0.265 which is nearly 27 percent being much higher than the permissible error (usual permissible extent of error is 5 percent ie 0.05), therefore the model is highly insignificant and the fitting is not permissible.*
- *The summary of regression coefficients indicates that among these only the BRAC 's membership under the framework of multiple regression being 0.049 is significant by nearly 5 percent.*
- *Standardised beta values for ASA, BRAC, Grameen Bank , Proshika and other MFIs are 0. 996, 1.342, -.749, -.596 and -1.4 respectively. It means after BRAC, only ASA's outreach is effective whereas the rest of the MFIs are not reaching or contributing effectively to the potential number the poor households.*

[13] It is assumed that each member of the NGO represents an household. In most of the NGOs mandate, the targeting criteria includes that their members should represent a family. However in practice a lot of deviation is observed. Consequently there exists substantial overlapping. Further quantitative analysis may be seen in chapter 3 under targeting the HCP

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6.4.2 Outreach Analysis by Loan Amount Disbursement

The following **Table 6.21** summarises region-wise LP Model estimated loan amount (derived from the outcome of previous section) and corresponding disbursements by ASA, BRAC and other MFIs[14] .

Table 6.21: Region-wise LP demand (amount) Vs Mfis's outreach (Amount in Million Tk)

Sl No	Region	LP Estimated total Loan Amount required	ASA 's disbursement (as on Dec 1999)	BRAC 's disbursement (as on Dec 1999)	MFIs [15] loan amount disbursed as of June, 1999
1	Barisal	14553.00	283.81	341.91	478.60
2	Bogra	7325.00	347.98	608.04	368.90
3	Chittagong	10062.00	227.47	176.24	601.82
4	Comilla	19861.00	527.12	654.89	183.76
5	Dhaka	20717.00	1081.86	972.92	7300.63
6	Dinajpur	7807.00	179.16	339.97	848.61
7	Faridpur	15381.00	323.14	1070.96	540.00
8	Jamal pur	6962.00	226.00	402.31	94.66
9	Jessor	11196.00	338.6	719.58	1113.50
10	Kishoreganj	9320.00	203.62	237.96	52.42
11	Khulna	7874.00	356.47	378.50	692.58
12	Kushtia	5668.00	212.87	483.57	352.65
13	Mymensingh	10584.00	530.74	527.74	179.03
14	Noakhaili	13845.00	429.20	266.78	208.84
15	Pabna	9078.00	169.08	464.28	130.17
16	Patuakhaili	6095.00	445.11	142.84	82.54
17	Rajshahi	11544.00	564.67	874.04	62.92
18	Rangpur	17666.00	123.90	805.56	243.52
19	Sylhet	15177.00	212.10	461.49	61.704
20	Tangail	8915.00	151.94	311.51	1774.14
21	CHT	2457.00	.		

Taking Loan amount requirement as dependent variable, Y and ASA, BRAC and MFIs disbursement as the explanatory variables, the regression models can be developed as follows:

$$Y = \lambda + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \in$$

Where :

Y represents LP loan estimates

λ Constant

[14] MFIs include all those NGOs involved in microfinance excluding major MFIs eg ASA, BRAC and Proshika . List of these NGOs with selected parameters is given in Appendix A 4.2

[15] MFIs Exclding : ASA, BRAC and, Proshika as per statistics of CDF vol 8

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X_1	ASA's disbursement
X_2	BRAC's disbursement
X_3	MF-NGO disbursement
$\in$	Degree of Error

β_1 , β_2 and β_3 are the parameters showing what change will be affected to the required amount of microfinance estimated for the people below the poverty line. Solving the above regression model , the results (**Appendix A6.2**) are as follows :

- *Usually 5 percent error (0.05) is permissible. The Analysis of Variance Table (ANOVA) indicates an error value of 0.036 which is less than the permissible error, therefore the model is significant and the fitting is permissible.*
- *The summary of regression coefficients indicates that only BRAC 's disbursement pattern under the framework of multiple regression being 0.055 is significant compared to other MFIs included in the model*
- *The value of the constant is 5962.535. Standardised beta values for ASA, BRAC and MFIs are 3.87, 7.637 and 0.347 respectively*

Putting these values in the regression model, the values may be estimated as under:

$$\acute{y} = 5962.535 + 3.872\ X_1 + 7.635\ X_2 + 0.347\ X_3$$

(iii) MFIs Outreach Towards HCP

The following **Table 6.22** provides a summary of region-wise number of HCP households (Rural)[16] and the outreach [17] of ASA, BRAC and Proshika .

[16] Regional number of HCP households estimates has been worked out on the basis of CIRDAP-BBS Survey 1999 and the percentage of division wise Vulnerable households estimated by Helen Keller International including distress indicators during October, 1999 under Round 58 - Rural (Nutritional Survellance Project) . Vulnerable households as defined by Helen keller International are those with no cultivable land and whose main earner depends on casual labour for income. For the purpose of analysis, the authors have used vulnerable households as interchangeable to the term HCP households. It is also assumed that the percentage of HCP remains same in all the regions of the same division.

[17] The number of HCP members of selected MFIs have been estimated on the basis of the UN-Poverty Report 2000 which indicates that 25 percent of the total households are reached by NGOs in Bangladesh.

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Table 6.22: Outreach Analysis : Region-wise Number of HCP and the number of members of Major MFIs

Sl No	Region	No. of HCP Households (rural)	No. of HCP members reached by ASA (as on Dec 1999)	No. of HCP members reached by BRAC (as on Dec 1999)	No. of HCP members reached by Proshika (as on March 2000)	No. of HCP members reached by MFIs [18] (as of June, 1999
1	Barisal	122971	13475	27253	47358	30629
2	Bogra	81055	14186	48758	21415	18094
3	Chittagong	100054	8665	15574	30475	20042
4	Comilla	201531	21091	36800	20180	9392
5	Dhaka	152075	37463	57042	93362	
6	Dinajpur	88162	7994	26430	4799	27903
7	Faridpur	133033	13541	81624	24294	15006
8	Jamal pur	70571	9495	41477	3168	8284
9	Jessor	96837	15451	56214	11688	31282
10	Kishoreganj	85196	14950	33523	24437	39759
11	Khulna	75920	7773	20534	19371	2317
12	Kushtia	61876	3360	32965	3082	12198
13	Mymensing	110500	22097	47802	25870	9873
14	h	116628	19150	19675	20825	7808
15	Noakhaili	96188	9772	44310	18700	24119
16	Pabna	52649	16514	12474	6643	2635
17	Patuakhaili	133328	24221	60838	32821	10363
18	Rajshahi	212742	14130	82000	14702	17688
19	Rangpur	136562	9208	39164	86	4100
20	Sylhet	71782	6170	24070	29300	48947
	Tangail					

Data Sources: BBS-CIRDAP Survey 1999; Various reports from the selected NGOs; CDF Statistics Vol 8 ; Helen keller International (1999); UNDP-Poverty Report 2000

Taking the number of HCP households as dependent variable, Y and the number of HCP households of ASA, BRAC, Proshika and MFIs members[19] as the explanatory variables, a regression model can be developed as follows:

$$Y = \lambda + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \in$$

Where Y represents the number of HCP households

λ Constant

X_1 Number of ASA's HCP members

X_2 Number of BRAC's HCP members

X_3 Number of Proshika's HCP members

X_{14} Number of MFIs 's HCP members

[18] MFIs Excluding : ASA, BRAC and, Proshika as per statistics of CDF vol 8

[19] It is assumed that each member of the NGO represents an household. In most of the NGOs mandate, the targeting criteria includes that their members should represent a family. However in practice there is observed a lot of deviation. Consequently there exists substantial overlapping. Further quantitative analysis may be seen in chapter 4.

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$\in$ Degree of Error

β_1 , β_2 , β_3 and β_4 are used as the parameters to assess the extent of change that will affect to the coverage of potential number of HCP households. The SPSS results (**Appendix : A6.2**) of the above regression model (with three major NGOs as explanatory variables) indicate that:

- *The Analysis of Variance Table indicates an error value of 0.071 which is 7 percent being more than the permissible value of 5 percent, therefore the model is not significant and the fitting is not permissible.*
- *The summary of coefficients indicates that among these NGOs only BRAC 's membership under the framework of multiple regression being 0.047 is significant*
- *The value of the constant is 44166.708. Standardised beta values for ASA, BRAC, Proshika and MFIs are 1.644, 0.994, 9.83 and -.189 respectively*

The above analysis shows that among the major MFIs (Grameen Bank, ASA, Proshika, BRAC) and other 521 MFIs, only BRAC has significant level of its outreach for targeting poverty in terms of membership and disbursement of loans .

6.5 Conclusions

The offshot of above analysis is that MFIs' programmes have been effective mostly for "*marginal poor*". In other words they have not been effective conduit, in applying appropriate mechanisms, particularly in reaching the HCP whose basic needs and respective responses are voiced in Box 6.1.The regression and econometric analysis of placement and outreach of major MFIs (ASA, BRAC, Proshika) based on four vital determinant variables : *poverty* condition; *demand* for microfinance; *cost* of providing services and the *risk* of conducting microfinance operations in the target area shows that the services of these MFIs are inclined more towards the poor who reside in relatively better developed areas rather than towards the poor in more remote and less developed regions. The non-availability of

Box : 6.1 Voice of a HCP

I was Hungry
And you set up a Committee
To investigate my Hunger,
I was Homeless
And you compiled a Report
On my Homelessness
I was Sick
And you held Seminar
On my sickness,
I am still Hungry,
I am still Homeless,
I am still Sick
Anonymous

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commercial banks branches in the remote area/poor locations limits the access of the MFIs which carry out their transactions in the branches of these banks.

The analysis of the experience of FFW and VGD or IGVGD programmes, suggests that to reach the HCP with microfinance and other development programs, it requires (a) food assistance or fund for food and consumption need; (b) capacity building and (c) small size of loan. Therefore, the microcredit programme designed for the HCP needs flexible rules for savings and loans. More focused and exclusive programmes are desirable for reaching the HCP in both government and NGOs sectors. VGD programme has been found better in terms of its effectiveness in reaching the HCP compared to other safety net programmes..

Nearly 100 billion Tk has been disbursed by the MFIs (CDF, 2000) which is less than half of the total amount of estimated demand for credit of Tk 232 billion[20] for rural areas. The multiple regression analysis of the outreach indicators (membership and loan amount disbursed) indicates that BRAC has been relatively nore successful in reaching the poor compared to Grameen, ASA, Proshika and other 521 NGOs.

Policy implications of these findings call for evolving a strategy to promote the philosophy of VGD programme on a larger scale at national lecvel. The present coverage of over 100,000 beneficiaries under IGVGD is far less than the required scale to reach HCP. While replicating this programme, other interested NGOs may also be included which will ensure an healthy competition leading towards better services targeting the HCP.

[20] An estimated **demand of microfinance** for all the population below the poverty line in Bangladesh has been worked out by the author by developing LP Models envisaging minimizing function with 21 constraints equations at national, rural and urban level. (see appendix A 6.1)

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Chapter VII

SUMMARY OF FINDINGS AND POLICY IMPLICATIONS

In this thesis an attempt has been made to determine the incidence of poverty in Bangladesh identifying social economic profile of the poor with a focus on the characteristics of hardcore poor. The possibility of poverty alleviation through microfinance is explored using latest BBS 1999 data with regional (greater district wise) breakup of a sample size of 15000 households and the outreach data of major NGOs engaged in microfinance known as microfinancial institutions (MFIs). Examining their role, an attempt has also been made to see the extent of MFIs' reach towards hardcore poor. The main conclusions of the present study and some policy recommendations are presented below

7.1 Major Findings

Defined by the level of incomes and types of economic survival activity, Poverty Pyramid suggests five strata and echelons envisaging distinct sub-groups of the poor : vulnerable poor, labouring poor, self-employed poor, entrepreneurial poor, and near poor. Lack of income and assets, wage dependence; physical weakness (malnutrition , sickness, disability, lack of strength); isolation (ignorance by others, illiteracy, distress, inaccessible location); vulnerability (to contingencies , lack of coping capacity to natural disasters); and powerlessness are some of the socio–economic indicators of HCP.(Ch5)

The officially defined two poverty lines in Bangladesh provide basic parameters to explain ***absolute poverty (2122 k.cal) and HCP (1805 kcal)***. Over the past decade the percentage of population below the poverty line in Bangladesh showed a decline though insignificant, from 47.8 percent in 1988-89 to 47.5 percent in 1995-96. According to BBS(1998), 49.7 percent urban and 47.1 percent rural population comes under absolute poverty. The **HCP are 27.3 percent in urban and 24.6 percent in rural** Bangladesh.(Ch 2). A recent poverty monitoring survey (1999), indicates that out of 21.64 million of total households of Bangladesh, 42.29 percent (9.15 million) are the poor households. The number of rural poor, according to HDR 1999, are 83.1 million.

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The World Bank has come out with a disquieting statement which reveals that in the beginning of the year 2000, 61 percent of the total urban population in Bangladesh was below the poverty line, out of whom 40 percent were HCP. The capital city of Dhaka has got 55 percent of its population below poverty line while 32 percent of the population are termed as HCP. (Ch2)

Bangladesh has a strong tradition of NGOs movement, covering over 78 percent of the total villages. About twenty four million people (approximately one-fifth of the population) benefit from their activities It is estimated that about 60 percent of the total poor in Bangladesh are reached through microfinance, of which two-third are reached by MFIs in non-governmental sector. At present more than twenty two thousand NGOs (registered) are working in Bangladesh envisaging their mission of reducing poverty through microfinance with a yearly budget exceeding Tk 40 billion. The three major microfinance institutions viz., Grameen Bank, BRAC and ASA cover about 80 percent of the total outreach of MFIs in Bangladesh. These are among the best 30 microfinance practitioners all over the world. (Ch4).

The main features of the various stakeholders in MFIs are : increased involvement in the field of microfinance (turning from care and welfare to credit and credit plus) and dependency on microfinance programme for sustainability; mobilization of savings (which on average constitute about one-fifth of their revolving fund); innovations in savings and credit products; thinking for self-regulation; vital role of PKSF as a financial intermediation with unique mechanism in providing funds to MFIs and creating professional development in the microfinance sector aimed towards the alleviation of poverty in the country.(Ch4)

About half of the MFIs credit is disbursed for activities having long gestation periods and the credit is mostly used by the " *better-off poor*" . It is logical to assume that those who can repay the loan in weekly installments have access to other sources of income. This means that the MFIs credit for self employment programmes presumes possession of basic assets on the part of the intended beneficiaries, including social and financial skills and stable habitation. Consequently, this leaves out the HCP.(Ch 4,5) About four-fifth of the Grameen loans are disbursed against IGAs related to agriculture,

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livestock, processing and manufacturing. Most of these IGAs have certain gestation periods spread over several months or more. These activities do not match with the conditions that require repayment of the principal and the interest in weekly installments. (Ch5)

Most of the MFIs, in practice, find their programmes affected by the problem of "Mistargeting". The estimated mistargeting in GB is 20 -30 percent. *Over 30 percent of the post 1992 GB borrowers own more than one acre of land.* The extent of mistargeting in pre- 1992 households ie 21 percent, has increased to 51 percent in the case of post 1992 households. In case of BRAC in Matlab area, the proportion of *non target groups is 32 percent.* A comparative study of BRAC and BRDB programmes shows that 30.5 percent of BRDB-RPP and *33.1 percent of BRAC - RDP programme participants fall beyond the defined parameters of the poor.* BRAC 's survey finds *27 percent members as HCP*, 25 percent as moderate poor while the rest 48 percent are non poor. (Ch4)

The regression, econometric and outreach analysis of grassroots placement of major MFIs (ASA, BRAC, Proshika) , based on four determinants : *poverty* situation in the target area ; level of *demand* for microfinance in that area ; level of *cost* of providing microfinance services and the *risk* of conducting microfinance operations in the target area are expressed ***as*** : Bi = f (Pi, E (Di), E (Ci). Ri). The results indicate that services of *MFIs are inclined more towards the poor who reside in relatively better or developed areas rather than towards the poor in more remote and less developed regions.* (Ch 6) It leads to the conclusion that the microfinance does not embrace ' *all people below poverty line*'. It reaches those who are "*just below*' or *ón*' or '*just above*' the poverty line and leaves out substantial number of poor at the bottom end ie HCP (Ch 4,5,6)

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This study estimates an enormous amount of Tk 232 billion[1] required (Ch6) to provide loans to all the people below poverty line. The existing MFIs are only providing about 100 billion Tk (Ch4). Therefore there is a need to formulate a comprehensive plan to meet this drastic deficit of Tk 132 billion with a view to alleviate poverty altogether from the country. There is scope to extend LP models further at district and thana levels provided such input data is available. The model provides a broader guideline.

The hypotheses related to the exclusion of the HCP can broadly be categorised into two types : (i) the *supply* side factors pertaining to operational mechanism of MFIs and (ii) *demand* factors of the HCP. (Ch1). It would not be appropriate to put all the blame on the MFIs for incidental inclusion and systematic exclusion of the HCP from the microfinance programme. This is because when the microcredit programme was designed, it did not take into consideration the fact that *distinction among the poor may itself be an obstacle in the participation of the HCP.* It is observed that even after more than two decades of operation , the microcredit programme still lacks adequate innovations to reach the HCP. It is further argued that there exists a *mismatch between the characteristics of HCP (demand side) and the reaching mechanism and programme design of MFIs (supply side).* The consequence of this mismatch makes the MFIs programmes inaccessible for the HCP in the country.(Ch5)

The factors which by and large are responsible for the exclusion of HCP from participating in MFI programme, may be grouped into two categories : (a) *Endogenous Factors :* HCP do not consider themselves credit worthy; they also cannot afford time to attend meetings ; usually male adult earning members are absent to guarantee repayment of loan; generally they lack skill and entrepreneurial capability; social and traditional values inhibit their participation ; the requirements of regular savings and payment of weekly installments mainly prohibit them from joining microfinance programmes; (b) *Exogenous Factors :* there exists opposition[2] from other group members

[1] The demand has been estimated through LP model developed by the author using region-wise existing poverty situation (CIRDAP-BBS Poverty monitoring survey April-May, 1999) . The analysis takes into account the outreach of ongoing MFIs.

[2] A study of 296 samities/centres of 20 NGOs which included 7,097 members[2] found that 45 percent (62 centres) of the HCP were excluded consciously by the group members.(Ch5 ;5.5)

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of higher social status who also suspect them for committing defaults; the programme design is inappropriate; NGOs and Donors are too much concerned about cost effectiveness. (Ch 4,5) instead of greater coverage.

The outreach of *MFIs exceeds 16 million borrowers in Bangladesh, whereas the number of poor (in Dec.1999) are about* 44.04 *million (9.15 million households) including about 21.6 million hardcore poor.* Assuming that each of these borrowers is representing a household (as in principle NGOs advocate), this is a clear indication of a substantial overlap and mismatch i.e .outreach of MFIs exceeds the number of poor families. (Ch5)

The outreach analysis (chapter 6) shows that VGD in terms of reaching the poor villages is comparatively better than other similar programmes like FFW. Multiple regression analysis indicates that in terms of targeting poor villages, the outreach of BRAC is better (significant) than that of GB, ASA and other selected 521 MFIs.

With the existing product designs, institutional structure and operational mechanisms, (Ch5), the present microfinance programme may not be able to reach HCP. There are several issues which require attention in this regard, such as: (1) there are as yet no substantial programmes to take care of the credit needs of microcredit graduates – those who have been able to cross the poverty line receiving microcredit for several years. There is lack of MFI linkage and access to formal credit sector; (2) the IGAs financed by microcredit have been found by and large less-productive with low growth potential which limit their contribution to macro-economic development; (3) women's actual participation in the use of credit and control over income is limited; (4) there is a need for regulatory framework for making MFIs more accountable and transparent in operational mechanism.(Ch4,5)

The services related to microfinance are mostly of "promotional" type instead of being "survival" and " protective" in nature . The existing grassroots institutional mechanism allow the better-off poor to expand their business. But the HCP are constantly vulnerable to income erosion due to contingencies, they badly need credit for survival

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and protective purposes. The microfinance, in its present mechanism, has been inclined towards making the poor credit dependent rather than changing their economic status into self reliant attainments(Ch6) Therefore, a different institutional structure and support mechanism from external sources, government and non-government, is required to reach HCP.

7.2 Policy Recommendations

In the backdrop of slow growth and widespread poverty in Bangladesh, targeted interventions for alleviation of poverty will continue to be of paramount importance in the foreseeable future. The mechanism and magnitude of these programmes will depend on : (a) growth of GDP; (b) sources of growth and linkage with employment creation; and (c) growth in agricultural production (including fisheries and livestock) (Ch3). The following are some major recommendations towards appropriate policy formulations and implementations:

(1) There is now growing concern, based on studies in Bangladesh, that the conventional poverty alleviation programmes including microfinance by both government and NGOs need to be restructured to make them more effective in accomplishing their basic objective of helping the HCP in the country. (Ch6), An effective GO-NGO and NGO-NGO cooperation will lie at the heart of the success of the proposed programmes for HCP. Special attention is required to expand the programmes to the poorest (as identified in the map 1.1 (chapter 1) economically depressed areas. The problems of overlapping by the NGOs can and should be overcome. MFIs need to restructure their institutional and operational mechanism which aims at reaching the HCP through easy and quick access to microfinance services.

(2) In order to reach HCP, some measures required for reorienting MFIs programmes are as follows: (i) a different model (different product and delivery mechanism) may be designed envisaging longer loan repayment period, flexible savings, lower interest rate etc ; (ii) new institutional

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arrangements may be made to solve the problems of HCP, like consumption needs, social services etc, as identified (Ch4);(iii) appropriate entry point such as food supply, cash grant, saving mobilisations, training etc may be identified. ; (iv) tasks may be divided among NGOs (eg large NGOs for moderate and small NGOs for HCP) ; GO-NGO collaboration may further be sought to help HCP. All these options are suggesting the potential contents of *exclusive* programme (s) to reach the HCP.(Ch6)

(3) Microfmance as a strategy of poverty alleviation, has a strong focus on women (85 percent) by the government as well as credit NGOs. The demography of Bangladesh shows that the poor population also comprises the bulk of young population. If their poverty is not addressed , this larger segment of poor will be bypassed and a vast amount of human resources will be wasted. Unemployed youths also pose a formidable threat to social and political stability. The MFIs may include the potential youth (18-25) in their microfinance programme by forming separate youth groups and providing smaller size (Tk 5000-10000) loans

(4) The ongoing exclusive programmes for HCP (such as those initiated by ASA (savings credit) , Grameen Bank (goat rearing) and BRAC's IGVGD) are not proportionate to the number of HCP. These programmes are very limited in their scope and coverage. There is therefore a need to promote, enhance and increase such types of programmes.

(5) The analysis of IGVGD programme demonstrates that access of HCP to microfinance and other development programs, requires (a) food assistance or fund for food and consumption need; (b) capacity building and (c) small size of loan. Therefore, the microcredit programme for HCP needs flexible rules for savings and size of loans. Cosequently, more focused and exclusive programmes are desirable to reach HCP in both government and NGOs sectors.(Ch6)

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(6) HCP are more interested in getting relief than microcredit. During the operation of such relief programme, a package approach may be implemented in which NGOs may include programmes like skill development, training, literacy course, health care facilities etc for the beneficiaries.

(7) Microcredit is not necessarily the best way to bail the poorest of the poor out of poverty. There is a strong case for a 'special safety net' programme for them.. In this scenario, there are some HCP focused initiatives already undertaken in the country such as : VGD, RMP, FFW. These programmes, with some comparative advantages, have been able to achieve considerable success in reaching the HCP. But these are again not enough when compared to the magnitude of the problem as a whole. (Ch6). Comparative analysis indicates that VGD has shown better performance compared to the other safety net programmes. Therefore, such type of programmes should be enhanced, promoted and replicated, at larger scale.

(8) As a step forward, VGD should be integrated with other interventions like education, health, sanitation etc. This will require GO-NGO collaboration and effective NGO-NGO cooperation. The government may allocate part of its poverty alleviation budget to the NGOs for such integrated development programmes. More priority should be given to the female headed families; households with the elderly people as the principal earners; households with disabled earner members and others who are most vulnerable.

(9) Whereas, the GOs, in most cases inherited the colonial structure with top-down directives based on " *control and authority* ", close guarding of the NGOs or incorporating them with GOs is likely to affect its uniqueness of " support and equality" . (Ch6) Considering the inherent

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structure of the organisations, it may be suggested that the NGOs may be allowed to function with the autonomy and flexibility, as it is presently enjoying . Too much of control mechanisms for NGOs may jeopardise the "specialities" of NGOs, which may ultimately affect lives of the poor.

(10) Apart from very few specialised NGOs, most of the MFIs have either not at all or very weak social development programmes for the handicapped and other vulnerable people. Even the IGVGD failed to address the problem of these socially disadvantaged groups of people in the country. In this regard, GOB should initiate innovative programmes either alone or in collaboration with NGOs. The outreach of these programmes needs to be monitored regularly and vigorously. For such programme funds may be generated by introducing charity programme

(11) The demand for different types of loans and saving services is affected by area specific factors. Reducing the cost of credit delivery and increasing the marginal impact of credit on borrowers depends on the extent to which the savings and credit products are responsive to area specific characteristics. MFIs' products are almost similar. Their branch offices have adequate decision making flexibility in carrying out the headquarters prescribed arrays of financial products but they do not have the flexibility to design new financial products or introduce modifications in the existing ones. Middle level tiers of MFIs such as divisional or district level offices should be given some flexibility for innovations or modifications aimed at meeting the special needs of their respective districts. It may be started initially by launching some pilot projects.

(12) At present the big MFIs like GB, BRAC are corporate in nature, it may not be a difficult task for them to create microenterprises/income earning opportunities exclusively for the poorest of the poor. Following an

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innovative approach, their homes can facilitate one of the most important means of production. Therefore, the option of providing low cost houses to the homeless families may increase their social status and help in ensuring permanent residential status.

(13) The analysis shows that mistargeting in terms of selection of area, selection of beneficiaries and hence coverage of the poor is emerging as an another area which requires a separate analysis. The bottom up approach also requires a separate study for looking the efficacy of microfinance in upholding microcredit graduates. In order to include HCP in MFIs programme some options as identified earlier under 7.2 (2) above may be examined carefully and these issues may be undertaken in future studies.

Tamat bil khair : Walhamdullila

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APPENDIX : A 6.1

Estimating Demand for Microfinance : Evolving LP Models

Like many countries, poverty in Bangladesh (with national level average of 42. 29 percent) varies across it's regions. According to CIRDAP-BBS Poverty Monitoring Survey of April-May, 1999, the poverty (in terms of the number of poor households) varies from 34.46 percent in Kushtia and 36.26 percent in Sylhet to 52.32 percent in Mymensingh and 49.65 percent in Rangpur regions . The following **Table A 6.1** shows region wise[1] data on the number of total households, number of poor households, percent of poor household to the total households, urban/rural poverty based on minimum caloric/ expenditures per month per family.

Table : A 6.1 **Population and Poverty (National) : Analysis By Region**
(As of April - May , 1999)

Sl #	Region	Households Total	Households Poor	percent Of Poor HH	Urban Poverty (Tk) Per month	Rural Poverty (Tk) Per month	P_{Li}[2]
1	Barisal	1067630	508375	47.62	831.9	596.7	764.3
2	Bogra	657900	293865	44.67	817.3	520.1	668.7
3	Chittagong	1195594	470858	39.38	878.5	623.9	751.2
4	Comilla	1535468	666094	43.38	1045.3	615.7	830.5
5	Dhaka	2661520	1090513	40.97	956.5	704.4	830.45
6	Dinajpur	849534	319915	37.66	608.9	507.5	558.2
7	Faridpur	1077978	532649	49.41	829.4	584.5	706.95
8	Jamalpur	603685	287153	47.57	709.2	501.3	605.25
9	Jessore	1042669	411369	39.45	750.0	571.0	660.5
10	Kishoreganj	922902	352781	38.23	716.8	540.6	628.7
11	Khulna	1032323	397050	38.46	857.0	527.6	692.3
12	Kushtia	673992	232234	34.46	1016.9	521.5	769.2
13	Mymensingh	846453	443217	52.36	863.3	486.9	675.1
14	Noakhali	872708	392453	44.97	833.7	733.8	783.75
15	Pabna	849732	355111	41.79	759.5	544.7	652.1
16	Patuakhali	536686	209433	39.02	783.0	579.1	771.05
17	Rajshahi	1381904	528910	38.27	625.0	496.4	560.7
18	Rangpur	1557306	773143	49.65	636.5	477.0	556.75
19	Sylhet	1339274	499002	37.26	854.7	607.1	730.9
20	Tangail	694258	293198	42.85	800.8	633.0	716.9
21	Chit. Hill Track	247008	92960	37.63	758.5	584.9	671.7
	Bangladesh	**21636532**	**9150294**	**42.29**			

Data Source : Synthesis/analysis by the author from CIRDAP-BBS Poverty Monitoring Survey, April-May, 1999

[1] Twenty one regions were called districts during East Pakistan period. These are also called Greater districts. Now Bangladesh has 64 districts. Since district wise poverty data is not available, therefore the analysis is based on 21 regions. The data has been extracted from CIRDAP-BBS Poverty Monitoring Survey conducted during April-May, 1999

[2] Average of the urban and rural poverty based on calorie intake method

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In this section an attempt has been made to develop Linear Programming Models which (with the available data) could estimate optimum financial requirements (the loan amount) at various locations (in this case the 21 regions of Bangladesh). The model is developed by making use of a famous Operational Research Technique called Linear Programming (LP).

Accordingly the objective is to determine :

An optimum (amount) resource (as a revolving fund for microcredit) required at the regional level (x_1) keeping in view the average rate of return (r) of selected Income Generating Activity (IGA) in order to make microcredit amount available to all the poor households in the region under the known region-wise poverty line (threshold) expenditure.

The model has been tested with the available data running through computer optimisation run solving the objective function (z) with equations envisaging certain constraints/conditions and related assumptions..

LP Model Formulation :

Objective function "z" is to

Minimize $z = X_1 + X_2 + X_3 + \text{---} X_j$ ------- (1)

Subject to :

$$\frac{R_{IGAs} * X_j}{HH_{pj}} \geq P_{Lj} \quad \text{--------- (2)}$$

Where :

$\mathbf{R_{IGAs}}$ is the average rate of return of the potential income generating activities in the region.

$\mathbf{x_1}$ **to** $\mathbf{x_j}$ are the regions in Bangladesh. At present j = 21 (regions of Bangladesh)

$\mathbf{HH_{pj}}$ are the number of poor households in the respective region

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$P_{I,j}$ is the poverty line threshold amount (regionwise) required to meet the minimum caloric requirements (on the basis of FEI method).

Data

In order to estimate R_{IGAs} harmonic mean has been determined on the basis of financial (investment & Rerurn on Investment) data of the following selected major Income Generating Activities (IGA), extracted from a publication (in Bengali Language) by Rashidul Hasan (1998) " Hundred IGAs Profile"

Table A 6.2 Selected IGAs Profile

Major IGAs	Loan/Investment Amount Required (avg)	Return on Investment (ROI) percent	Duration of loan (months avg.)
Trading/Small Business			
• Grocery Shop	8000	11	9
• Tea Stal	1600-20000	22	12
• Peddy Business	2500-3000	27	3
• Peddy Husking	5000	8-10	-
Live stock			
• Milking	10000-25000	10-15	12
• Fattening	5000-10000	40-50	3
Poultry			
• Broilor	7000-10000	18-20	5-6
• Layer	10000	16-20	5
• Homestead Vegetable Gardening	5000-20000	25-50	3
• Fishries	20000	50-100	12

Source: Extracted from a Bengali Publication by Rashidul Hasan (1998) " Hundred IGAs Profile"

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Among the above, trading, poultry and livestock are most common IGAs.

Table A 6.3 : Rate of Return on IGAs

Selected IGAs	R.O.I	Duration	ROI per month
Grocery shop	.11	9	0.0122
Tea Stall	.22	12	0.0183
Peddy Business	.27	3	0.09
Broilar	.18	5.5	0.0327
Layer	.18	5	0.036
Livestock (milking)	.12	12	0.01

Therefore the harmonic mean of these IGAs gives the monthly rate of return as calculated by the following formula :

$$H = \frac{n}{\sum {}^{1}/x_i} = 0.019629148$$

Hence R_{IGAs} 0.019620148

Now by applying these models, solutions (a and b, below) are obtained for the two estimates (urban and rural) with two sets of constraints/equations on the basis of the variable related to poverty (number of poor households), and the respective rural/urban poverty lines.

(a) LP Model for Urban Estimates

The regionwise values of P_{Ij} for the urban threshold poverty lines is known . Therefore the regionwise equations (constraints) may be developed from the data given in the **Table: A6.4**

Table : A 6.4 Population and Poverty (Urban) : Analysis By Region
(As of April , 1999)

	Region	Households	Households	percent	Urban Poverty (Tk) Per
1	Barisal	67632	28019	41.43	831.9
2	Bogra	37209	16279	43.75	817.3
3	Chittagong	415931	152213	36.60	878.5
4	Comilla	80924	24277	30.00	1045.3
5	Dhaka	1265296	505608	39.96	956.5
6	Dinajpur	41841	17991	43.00	608.9
7	Faridpur	44643	20982	47.00	829.4
8	Jamalpur	32258	15725	48.75	709.2

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9	Jessore	84337	30120	35.71	750.0
10	Kishoreganj	47904	17365	36.25	716.8
11	Khulna	232323	105050	45.22	857.0
12	Kushtia	54945	20329	37.00	1016.9
13	Mymensingh	38760	18217	47.00	863.3
14	Noakhali	51282	21025	41.00	833.7
15	Pabna	65420	25700	39.29	759.5
16	Patuakhali	8385	3773	45.00	783.0
17	Rajshahi	174358	72307	41.47	625.0
18	Rangpur	93024	44574	47.92	636.5
19	Sylhet	41025	11282	27.50	854.7
20	Tangail	32085	17112	53.33	800.8
21	Chit. Hill	27075	10586	39.10	758.5
	Bangladesh	**2936662**	**1178542**	**40.13**	

Data Source : Synthesis/analysis by the author from CIRDAP-BBS Poverty Monitoring Survey, April-May, 1999

Applying the LP Model :

Minimize $z = X_1 + X_2 + X_3 + \cdots X_j$ ------- (1)

Subject to :

$$\frac{R_{IGAs} * X_j}{HH_{pj}} \geq P_{L,j} \quad \text{--------- (2)}$$

Where :

R_{IGAs} is the average rate of return of the potential income generating activities in the region.

x_1 **to** x_j are the regions in Bangladesh. At present j = 21 (regions of Bangladesh)

HH_{pj} are the number of poor households (Urban) in the respective region

$P_{L,j}$ is the Urban Poverty line threshold amount (regionwise) required to meet the minimum caloric requirements (on the basis of food energy intake method).

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The linear equations (constraints or conditions) of the LP Model can be formulated by putting the respective values as follows :

$0.0196^{3}\ x_1 / 0.028019^{4} \geq 831.9$; $0.0196\ x_2 / 0.016279 \geq 817.3$;
$0.0196\ x_3 / 0.152213 \geq 878.5$; $0.0196\ x_4 / 0.0224277 \geq 1045.3$;
$0.0196\ x_5 / 0.505608 \geq 956.5$; $0.0196\ x_6 / 0.017991 \geq 608.9$;
$0.0196\ x_7 / 0.020982 \geq 829.4$; $0.0196\ x_8 / 0.015725 \geq 709.2$;
$0.0196\ x_9 / 0.030120 \geq 750.0$; $0.0196\ x_{10} / 0.017365 \geq 716.8$;
$0.0196\ x_{11} / 0.105050 \geq 857.0$; $0.0196\ x_{12} / 0.020329 \geq 1016.9$;
$0.0196\ x_{13} / 0.018217 \geq 863.3$; $0.0196\ x_{14} / 0.021025 \geq 833.7$;
$0.0196\ x_{15} / 0.025700 \geq 759.5$; $0.0196\ x_{16} / 0\ 003773 \geq 783.0$;
$0.0196\ x_{17} / 0.072307 \geq 625.0$: $0.0196\ x_{18} / 0.044574 \geq 636.5$;
$0.0196\ x_{19} / 0.011282 \geq 854.7$; $0.0196\ x_{20} / 0.017112 \geq 800.8$; $0.0196\ x_{21} / 0.010586 \geq 758.5$

As indicated earlier, for this study, the objective function has been set up to determine a minimum amount required for the urban areas of all the regions as a whole as well as region-wise amounts to be disbursed under the constraints (conditions) that the poor families in the respective regions can generate their monthly threshold level of income.

The above LP Model was solved by using a computer software programme.[5] The results are given [illegible] Accordingly, the value of objective function (z) comes to Tk 50, 795 million. The model also provides regionwise breakup of the required loan amount to start selected IGAs which could yield an average rate of return of about 0.019 (percent) per month as worked out earlier. With the available statistics of NGOs microfinance (regionwise) data, the regional estimates can further be determined.

(b) LP Model for Rural Estimates

The region-wise values of P_{Lj} for the rural threshold poverty lines is known . Therefore corresponding equations (constraints/conditions) may be developed from the data given in the **Table: A 6.5**

[3] Rounded off at four digits after converting into percentage
[4] Number of poor households cnverted into millions to simplify calculations

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Table : A 6.5 Population and Poverty (Rural) : Analysis By Region (As of April-May , 1999)

	Region	Households (Rural)l	Households Poor (rural)	percent Of Poor HH	Rural Poverty (Tk) Per month
1	Barisal	999997	480355	48.04	596.7
2	Bogra	620690	277586	44.72	520.1
3	Chittagong	779663	318644	40.87	623.9
4	Comilla	1454544	641817	44.13	615.7
5	Dhaka	1396224	584904	41.89	704.4
6	Dinajpur	807693	301923	37.38	507.5
7	Faridpur	1033335	511667	49.52	584.5
8	Jamalpur	571427	271427	47.50	501.3
9	Jessore	958331	381249	39.78	571.0
10	Kishoreganj	874998	335416	38.33	540.6
11	Khulna	800000	292000	36.50	527.6
12	Kushtia	619047	211904	34.23	521.5
13	Mymensingh	807693	425000	52.62	486.9
14	Noakhali	821426	371427	45.22	733.8
15	Pabna	784312	329411	42.00	544.7
16	Patuakhali	528301	205660	38.93	579.1
17	Rajshahi	1207545	456603	37.81	496.4
18	Rangpur	1464282	728569	49.76	477.0
19	Sylhet	1298248	487720	37.57	607.1
20	Tangail	652173	276086	42.33	633.0
21	Chit. Hill	219933	82373	37.45	584.9
	Bangladesh	**18699869**	**7971752**	**42.63**	

Data Source : Synthesised/analysed by the author from CIRDAP-BBS Poverty Monitoring Survey, April-May, 1999

Applying the LP Model :

$$\text{Minimize} \quad z = X_1 + X_2 + X_3 + \cdots X_j \qquad \text{-------} \ (1)$$

Subject to :

$$\frac{R_{IGAs} * X_j}{HH_{pj}} \geq P_{L,j} \qquad \text{---------} \ (2)$$

[5] LP programme of the package " Management Scientist" can maximize or minimize the value of a linear objective function subject to a set of linear constraints. The programme can handle a maximum of 25 constraints and a

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Where:

R_{IGAs} is the average rate of return of the potential income generating activities in the region.

x_1 to x_j are the regions in Bangladesh. At present j = 21 (regions of Bangladesh)

HH_{pj} are the number of poor households (rural) in the respective region

$P_{I,j}$ is the Rural Poverty line threshold amount (regionwise) required to meet the minimum caloric requirements (on the basis of food energy intake method).

The linear equations (constraints or conditions) of the LP Model can be formulated by putting the respective values as follows :

$0.0196^{6}\ x_1 / 0.480355^{7} \geq 596.7$; $0.0196\ x_2 / 0.277586 \geq 520.1$;
$0.0196\ x_3 / 0.318644 \geq 623.9$; $0.0196\ x_4 / 0.641817 \geq 615.7$;
$0.0196\ x_5 / 0.584904 \geq 704.4$; $0.0196\ x_6 / 0.301923 \geq 507.5$;
$0.0196\ x_7 / 0.511667 \geq 584.5$; $0.0196\ x_8 / 0.271427 \geq 501.3$;
$0.0196\ x_9 / 0.381449 \geq 571.0$; $0.0196\ x_{10} / 0.335416 \geq 540.6$;
$0.0196\ x_{11} / 0.292000 \geq 527.6$; $0.0196\ x_{12} / 0.211904 \geq 521.5$;
$0.0196\ x_{13} / 0.425000 \geq 486.9$; $0.0196\ x_{14} / 0.371427 \geq 733.8$;
$0.0196\ x_{15} / 0.329411 \geq 544.7$; $0.0196\ x_{16} / 0.205660 \geq 579.1$;
$0.0196\ x_{17} / 0.456603 \geq 496.4$; $0.0196\ x_{18} / 0.728569 \geq 477.0$;
$0.0196\ x_{19} / 0.487720 \geq 607.1$; $0.0196\ x_{20} / 0.276086 \geq 633.0$;
$0.0196\ x_{21} / 0.082373 \geq 584.9$

As indicated earlier, for this study, the objective function has been set up to determine a minimum amount required for the rural areas of all the regions as a whole as well as region-wise amounts to be disbursed under the constraints (conditions) that the poor families in the respective regions can generate their monthly threshold level of income.

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maximum of 75 variables. This model contains 21 constraints (related to 21 greater districts of Bangladesh).

[6] Rounded off at four digits after converting into percentage

[7] Number of poor households converted into millions to simplify calculations

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Accordingly, the value of objective function (z) comes to Tk 232,098 million . The model also provides region-wise breakup of the required loan amount to start selected IGAs which could yield an average rate of return of about 0.019 (in percent) per month as worked out earlier.

(c) LP Model for National Estimates

On the similar framework, LP Model for national estimates was developed on the basis of the average of poverty expenditures of urban and rural. Accordingly, the consolidated estimated financial requirements come to Tk 319180 million at national level. The model also provides regional estimates. Since most of the MFIs are working in rural areas, therefore more detail analysis on national basis has not been carried out in this section.

[8] LP programme of the package " Management Scientist" can maximize or minimize the value of a linear objective function subject to a set of linear constraints. The programme can handle a maximum of 25 constraints and a maximum of 75 variables. This model contains 21 constraints (related to 21 greater districts of Bangladesh).

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Regression

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	PROSH_ME, NGM, ASA_MEM, BRAC_MEM, MABP[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: RHH_POOR

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.767[a]	.588	.244	138234.5

a. Predictors: (Constant), PROSH_ME, NGM, ASA_MEM, BRAC_MEM, MABP

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.63E+11	5	3.27E+10	1.710	.265[a]
	Residual	1.15E+11	6	1.91E+10		
	Total	2.78E+11	11			

a. Predictors: (Constant), PROSH_ME, NGM, ASA_MEM, BRAC_MEM, MABP

b. Dependent Variable: RHH_POOR

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	302769.5	215816.7		1.403	.210
	ASA_MEM	.996	2.737	.139	.364	.728
	BRAC_MEM	1.342	.545	.806	2.462	.049
	MABP	-1.40E-02	1.159	-.005	-.012	.991
	NGM	-.749	1.046	-.235	-.716	.501
	PROSH_ME	-.596	1.325	-.158	-.450	.669

a. Dependent Variable: RHH_POOR

Regression

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Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	MF_NGOS, BRAC_DIS, ASA_DISB[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: LP_REQ

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.636[a]	.404	.293	3783.7653

a. Predictors: (Constant), MF_NGOS, BRAC_DIS, ASA_DISB

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.56E+08	3	51847591	3.621	.036[a]
	Residual	2.29E+08	16	14316880		
	Total	3.85E+08	19			

a. Predictors: (Constant), MF_NGOS, BRAC_DIS, ASA_DISB

b. Dependent Variable: LP_REQ

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5962.535	2199.770		2.711	.015
	ASA_DISB	3.872	5.886	.188	.658	.520
	BRAC_DIS	7.635	3.691	.450	2.068	.055
	MF_NGOS	.347	.777	.123	.447	.661

a. Dependent Variable: LP_REQ

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Regression

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	HCP_PROS, HCP_MFIS, HCP_BRAC, HCP_ASA[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: HCP_R

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.646[a]	.418	.263	36787.47

a. Predictors: (Constant), HCP_PROS, HCP_MFIS, HCP_BRAC, HCP_ASA

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.46E+10	4	3.64E+09	2.692	.071[a]
	Residual	2.03E+10	15	1.35E+09		
	Total	3.49E+10	19			

a. Predictors: (Constant), HCP_PROS, HCP_MFIS, HCP_BRAC, HCP_ASA

b. Dependent Variable: HCP_R

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	49067.015	29120.062		1.685	.113
	HCP_ASA	1.644	1.915	.298	.859	.404
	HCP_BRAC	.994	.459	.460	2.167	.047
	HCP_MFIS	-.189	.745	-.058	-.253	.803
	HCP_PROS	9.830E-03	.642	.005	.015	.988

a. Dependent Variable: HCP_R

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  http://www.pak.gov.pk/govt/population.htm
- Pakistan - Social Development website
  http://www.digitalin.com/devpak
- Sri lanka - Minstry of Samurdhi, Youth Affairs and Sports
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