

**ENTREPRENEURIAL DEVELOPMENT  
THROUGH MICRO-CREDIT:  
A Study of Poverty Alleviation Strategy  
of NGOs in Bangladesh**

**A dissertation submitted to  
the Department of Public Administration,  
Faculty of Social Science, University of Dhaka, Dhaka-1000,  
Bangladesh  
For the Degree of Doctor of Philosophy**

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## CERTIFICATE

*This is to Certify that Kabir Uddin Ahmed has complied with the regulations of the Doctor of Philosophy under the University of Dhaka in completing his thesis entitled "ENTREPRENEURIAL DEVELOPMENT THROUGH MICRO-CREDIT: A Study of Poverty Alleviation Strategy of NGOs in Bangladesh".*

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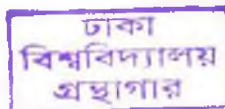
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## DECLARATION

*The research work entitled "ENTREPRENEURIAL DEVELOPMENT THROUGH MICRO-CREDIT: A Study of Poverty Alleviation Strategy of NGOs in Bangladesh" is submitted as a dissertation for the degree of Doctor of Philosophy (PhD) of the University of Dhaka and has been submitted for no other degree. Except where due acknowledgement is made, the work is original.*

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## Acknowledgement

*It is a matter of superb enthusiasm and privilege to convey my heartiest greetings and gratitude to my respected Ph.D. supervisor Professor Dr. Nazmul Ahsan Kalimullah, Department of Public Administration, University of Dhaka for his constant guidance and inspiration through all the stages of research.*

*I would like to express thanks to Mr. Shaheen Reza, UNO, Phultala, Mr. Md. Shahidul Islam, Area Manager, Khulna Zone, BRAC, Mr. Md. Khurshid Alam, Branch Manager, Khulna, ASA, Mr. Sheikh Abdul Jalil, Director, Prottay, Khulna and Mr. Binoy Bhushan, Manager, Bachte Shekha, Khulna.*

*I also express my gratitude to Mr. Nazrul Islam, Deputy Director, Youth Development Training Centre, Dinajpur, Mr. Md. Abdul Matin Sarker, Chairman, Chirirbandar Central Cooperative Samity Ltd. (BRDB), Dinajpur, Mr. Md. Sajedul Islam, Upazila Rural Development Officer, BRDB, Chirirbandar, Dinajpur, Mr. Md. Noor Alam, Branch Manager, TMSS, Chirirbandar, Dinajpur, Mr. Mrinal Kanti Roy, Officer, Grameen Bank, Chirirbandar, Dinajpur and Begum Naris Ara Begum, Branch Manager, Palli Daridra Bimochan Foundation, Chirirbandar, Dinajpur.*

*I must express my tribute to Mr. Muhammad Abdur Rahim Khan, Director SSRC, Mr. M. Idris Ali, Deputy Director (Planning), University of Dhaka, Mr. Abu Bakker Siddique for their co-operation.*

*I am also thankful to Mr. Iftekharul Islam for his arduous task of typing this thesis.*

*I would like to express thanks to my dutiful wife Amena for her assistance. My baby boy Karib cannot fully understand what is going on at his age of two, but expressed his feelings silently. Both of them have sacrificed and I am thankful to them.*

*I also acknowledge for the Scholarship provided by the Social Science Research Council, Planning Division, Ministry of Planning.*

*Finally, I pay homage to the memory of my late mother Rabeya Ahmed who has departed us on 6 October, 2004. She encouraged me much to do Ph.D.*



## Abstract

The Ph.D dissertation entitled “ENTREPRENEURIAL DEVELOPMENT THROUGH MICRO-CREDIT : A Study of Poverty Alleviation Strategy of NGOs in Bangladesh” and the name of researcher is Kabir Uddin Ahmed, Department of Public Administration, University of Dhaka.

Starting from the early 1970s, the non-governmental organizations (NGOs) have been playing an important role in Bangladesh, primarily concentrating on poverty alleviation through their micro-credit programs. Despite vigorous efforts by the government and the NGOs, not a single Union Parishad could claim to have eradicated poverty fully. Sadly enough, there does not seem to be any significant improvement in the situation and estimates vary between forty to fifty per cent of population of Bangladesh living below the poverty line. This means forty-eight to sixty million people are suffering the pains of poverty, many of whom are in abject poverty.

Generally, poverty is defined by low income, low consumption and low affordability of civic amenities. The proximate causes of poverty are increasing unemployment and under-employment. The country's labour force is growing rapidly at an annual rate of 3.2 per cent. It is estimated that the total number of job-seekers in the country amounts to nearly fifteen million. Every year about one million new entrants are being added to the labour force. Therefore, income generation through micro-credit has been one of the oldest approaches practiced by some of the larger NGOs in Bangladesh.

Due to inflexible terms and conditions of NGOs/ organizations, the borrowers exercise very little control over the size or timing of their credit. Micro-credit may not be appropriate to borrower's particular project-of-the moment and credit size can be another problem. Sometimes the credit available is too small for the intended purpose and has to be stored until other funds can be got. For these

Reasons, the impact of micro-credit is limited both in terms of sustainable poverty alleviation and entrepreneurial development.

Lack of entrepreneurship is the prime cause of hunger and poverty. The problems of poverty and unemployment in Bangladesh can be alleviated by setting up industries as it has the large scope for generating employment opportunities, augmenting income of the people related to it and accelerating the process of industrialization.

The present micro-credit facilities are unable to meet the demands of the entrepreneurs. Because adequate capital and credit are necessary conditions for entrepreneurial development. If the potential entrepreneurs get adequate amount of investment, they may enhance their production. Business to a large extent is not possible without credit. Credit is the instrument by which this gap-production to consumption is filled. NGOs should create the necessary facilitating framework for linking micro-credit to the formal banking system. Business activities are geared up with a rapid speed with the help of banks, which would have been slower in the absence of banking facilities.

More importantly, the present micro-credit system of NGOs for poverty alleviation in Bangladesh need to be reexamined to ensure sustainability. The programs cannot even achieve their goals, not to speak of sustaining, until and unless the NGOs and Government emphasize on entrepreneurial development through micro-credit with the support of formal banking system.

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## **ACRONYMS**

**ADAMS** – Association for Development Activity of Manifold Social Work

**ADC** – Area Development Coordinator

**ASA** – Association for Social Advancement

**BBS** – Bangladesh Bureau of Statistics

**BIDS** – Bangladesh Institute of Development Studies

**BMKS** – Bonochaya Mohila Kallayan Samity

**BRAC** – Bangladesh Rural Advancement Committee

**BRDB** – Bangladesh Rural Development Board

**BRIDGE** – Bangladesh Rural Integrated Development for Grub-Street-Economy

**CDF** - Credit and Development Forum

**CDP** - Upokulio Unnayan Shahajogy

**EDW** - Economic Development Worker

**FAO** - Food and Agricultural Organization

**GB** - Grameen Bank

**GDP** - Gross Domestic Product

**HES** - Household Expenditure survey

XVI

**IFAD** - International Fund for Agricultural Development

**IGP** - Income Generating Program

**IGVGD** - Income Generation for Vulnerable Group Development

**IRDP** - Integrated Rural Development Program

**JJS** - Jagrata Jubo Shangha

**MF** - Micro-Finance

**MFI** - Micro-Finance Institute

**MSC** - Micro-Credit Summit Campaign.

**NA** - National Account

**NGO** - Non-Governmental Organization

**PPP** - Purchasing Power Parity

**PROSHIKA** - Proshika Manobik Unnayan Kendra

**RCP** - Rural Credit program

**RDP** - Rural Development Program

**RRF** - Rural Reconstruction Foundation

**SMF** - Small and Medium Sized Enterprise

**SSI** - Small Scale Industry

**WHO** - World Health Organization

**VO** - Village Organization



## CHAPTER-1 INTRODUCTION

### 1.1 Prelude:

16 December, 1971 marked the appearance of a new country in South-East Asia on the World map named Bangladesh. The territory forming Bangladesh now was a province of British-India, known as East Bengal until 1947. In 1947, India was divided into two countries - Pakistan and India. East Bengal became a province of the then Pakistan and was known as East Pakistan until the birth of Bangladesh in 1971.

Bangladesh is a country of 123.1 million, squeezed in an area of 1,47,570 square kilometers with its population presently growing of the rate of 1.50 per cent per annum<sup>1</sup>. In Bangladesh poverty offers a grim scene due to various factors. According to Bangladesh Bureau of Statistics (BBS) data 47 per cent of the population is below the poverty line in terms of minimum calorie intake, made up of 48 per cent of the rural population and 44 per cent of the urban population, as of 1988-89<sup>2</sup>.

The number of poor is over 50 million but, a minimum condition of living to ensure human dignity requires that in addition to food, housing, clothing, medicine, sanitation and education are taken into account in defining the poverty line. The proportion of the population below such a poverty line is much higher. One estimate puts the figure at 86.6 per cent (or about 100 million people) as of 1990<sup>3</sup>. This may be on the higher side. But there is no doubt that the number involved is very large.

---

1. Bangladesh Bureau of Statistics, *Statistical Pocket Book of Bangladesh, 2001*, Planning Division, Ministry of Planning, Government of Bangladesh, Dhaka, 2002.

2.-----, *Statistical Pocket Book of Bangladesh, 2001*, Planning Division, Ministry of Planning, Government of Bangladesh, Dhaka, 2002.

3. UNDP, *Human Development Report, 1992*, Oxford University Press, New York.

Poverty is reflected, in Bangladesh, in poor health and malnutrition, poor housing and sanitation, restricted or no opportunity for income generation, low production, social and moral abuses (e.g., drug addiction), poor illiteracy rate and shorter span of life. However, there is a small minority who enjoys high standard of living. The economy is, in fact, characterized by wide disparities of income and access to productive resources. The main cause of poverty is unemployment and under-employment. The country's labour force is growing rapidly at an annual rate of 3.2 per cent. It is estimated that the total number of job seekers in the country amounts nearly fifteen million. Every year about one million new entrants are being added to the labour force<sup>1</sup>.

After the independence, the country's economy suffered major setbacks due to financial mismanagement. The situation worsened further when a devastating famine hit Bangladesh in 1974. Against this backdrop, a number of organizations set up relief and rehabilitation camps throughout Bangladesh. Thereafter these organizations were getting involved in various development activities with the objective of alleviating poverty of the poor. These organizations came to be known as Non-governmental organizations (NGOs). Specially, the gaps in the government sector created opportunities for NGOs to co-share work in development.

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1. **The Independent**, Dhaka, 3 October, 1998, P.4

Since then, the NGOs have been playing a crucial role in alleviating poverty through a new line of credit, which has evolved in Bangladesh. It is called micro-credit; a small loan offered to poor borrowers, 95 percent of whom are women. In most cases, these poor borrowers do not qualify for a conventional loan since they have no means of securing loans through collateral. According to Credit and Development Forum (CDF), there are now over 1200<sup>1</sup> NGOs working in Bangladesh (CDF, 2001) providing non-collateralized loans to the motivated self-employed entrepreneur.

The essence of micro-credit programme is the absence of physical collateral. A borrower must belong to a group to qualify for a loan. The original micro-credit model required a group of individuals guarantee repayment of a loan offered to one member of a group at a time. Once a group member has paid off a loan, another member of the group may qualify for a new loan or a repeat loan may be granted to a non-defaulting client. Today, in addition to group based lending, micro-credit is offered to individual borrowers with or without collateral.

The primary goal of micro-credit operation is poverty alleviation. But poverty alleviation must be looked at from a broader viewpoint because the poverty situation in Bangladesh is not improving rapidly. In this context, poverty alleviation programmes in Bangladesh need to be reexamined to ensure sustainability. Such micro-credit programmes of NGOs cannot even achieve their goals, not to speak of sustaining until and unless entrepreneurship is developed with the linkage of formal banking system for employment generation.

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1. Mondal, Wali I., **Micro-credit and Micro-entrepreneurship – Collateral free loan at work in Bangladesh**, Academic Press & Publishers Limited, Dhaka, 2002 P. 5

## 1.2 Micro-credit in Bangladesh – Historical perspective:

The earliest initiative for the development of rural areas in Bengal was the creation of local government institutions consisting of the village Panchayets<sup>1</sup>, the Union Boards and the District Boards with the initiative of the British Colonial government in the late 1880's. That was the first effort at the government level for rural development. In the NGO level, International Bengali poet and also a Land lord (Zaminder) Rabindranath Tagore (1861-1941) was the first man who had started rural development activities in Shilaidah (Kushtia) and Patisar (Naogaon) in the then Bengal as part of managing his ancestral property in 1890. The concept of collateral-free micro-credit to rural borrowers originated in Bangladesh when Tagore founded the Kaligram Krishi<sup>2</sup> Bank in Patisar village in the district of Naogaon in 1905.

Tagore tried to organize villagers into co-operatives. He was the first man who felt that credit could help in self-reliance of the people. Then he started collecting money from his friends, established an agricultural bank at Patisar to popularize the co-operative system with a paid-up capital of Rs. 90,000/-. Tagore was so much interested in co-operatives that he invested his entire 1.20 lakh rupees in the bank which he had received as the Nobel Prize for Literature in 1913. The poet became restless about the welfare of the people of Patishar area and sometime in 1905, he borrowed unspecified sum of money from some of his friends with the intention of founding the bank.

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1. "Panchayet" means an administrative unit at the lowest level.

2. "Krishi" is a Bangla word meaning "agricultural" in this context.



Since that money was not enough, he himself borrowed additional fund from the “mohajans”<sup>1</sup> at a very high interest rate. Thus was born the Kaligram Krishi Bank in the village of Patishar. This NGO initiative created sensation among the people at that time.

At the government level, the Famine Commission of 1901 recommended the establishment of mutual credit association to deal with the problem of agricultural credit which ultimately took the shape of enactment of the Co-operative Societies Act, 1904.

After the demise of the British Raj<sup>2</sup>, the then Pakistan Government launched V-AID programme in the 1950's for promoting comprehensive rural development. In early 1960's, Akhtar Hameed Khan, the Founder Director of Pakistan Academy for Rural Development (PARA) developed a model with four main components i.e., Two-tier co-operatives, Rural Works Programme, Thana<sup>3</sup> Irrigation programme and Thana Training and Development Centre. The success of this model was substantial particularly in and around Comilla District<sup>4</sup> which was the experimental laboratory of the academy. Subsequently, it spread to other areas and later Integrated Rural Development Program (IRDP) now Bangladesh Rural Development Board (BRDB) was created for replicating the two-tier co-operative in the country.

- 
1. “Mohajan” is a Bangla word meaning “private moneylender”.
  2. “Raj” is a Bangla word means “rule” in this context
  3. “Thana” is an administrative unit of a district which is now renamed as “Upazila”.
  4. “District” is an administrative unit.

When the colonial government introduced rural credit projects to the then Bengal at the close of the nineteenth century, its intentions were moral and didactics rather than financial. It aimed at using credit to rescue the poor from the exploitation of the moneylenders, to rehabilitate peasants in the wake of natural disasters, to promote co-operation between villagers, and to teach people the virtues of thrift. Similarly, the co-operatives and the state-owned banks of the 1950's and 1960's aimed to promote modern agricultural technology through collective farming or advanced technology, rather than to provide rural financial services *per se*. These ambitions entailed assumptions about the financial 'need' of the rural poor which were largely untested.

Between 1905 and 1974, there was no financial institution sponsored by any individual or non-governmental organization providing non-collateralized loans to poor borrowers. In 1972, an NGO was established named Bangladesh Rural Advancement Committee, popularly known as BRAC. The focus of BRAC was rural development including building of physical infrastructure and empowerment of women.

In 1974, BRAC started a programme of providing collateral free loans to the poor people of "Sullah" village located in the district of Sunamganj. BRAC's lending programme in Sullah was the first model of "micro-credit" offered to poor borrowers by any NGO after the demise of Kaligram Krishi Bank. Thereafter, the Grameen Bank project went into operation in 1976 under government sponsorship.

Professor Muhammad Yunus started the Grameen Bank project as an experiment in collateral free banking for the poor in 1976. Before making the bank, Yunus had helped a group of very poor women with a small loan equivalent to US \$ 27. Yunus actually lent this amount of money to a group of 42 people for various small projects. All of these borrowers repaid the



money to Yunus and he felt encouraged to make an institutional arrangement for small loans for the desperately poor people in rural areas. Conventional commercial banks politely turned him down on a number of grounds, the most important of which was the lack of physical collateral of the borrowers.

The commercial banks were reluctant to give credit to them primarily for the following reasons :

- a. the poor could not provide collaterals ;
- b. as they were illiterate and hence could not process relevant papers ;
- c. banks simply did not like to do business with so many small clients. Instead, they would prefer bulky business with a few big clients <sup>1</sup>.

Having been turned down by the commercial bank, Yunus started thinking about a way to help poor people obtain credit. Accordingly, Yunus came up with the idea of organizing the rural poor in groups and making each one of the group responsible for repaying of any loan that could be provided to a group member.

Experimental ideas of Yunus led to establishment of a rural bank in a village called "Jobra" in Chittagong. The borrowers of this village bank, which he named the Grameen Bank (GB)<sup>2</sup>, were the poor people who had no physical property to offer as collateral. Later on, Yunus was able to get the attention of the Central Bank of Bangladesh (Bangladesh Bank) to expand his project to the district of Tangail. Bangladesh Bank facilitated his work by arranging funds from the International Fund for Agricultural Development (IFAD). The experiment succeeded. In 1983, the Grameen Bank project was transformed into a bank under a law passed for its creation.

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1. Quddus, Md. Abdul and Bhattacharjee, Milan K. (Editors), **Poverty Focused Rural Development : A hand-book on a regional training programme**, Bangladesh Academy For Rural Development (BARD), Comilla, Bangladesh, Second edition, 1996, PP. 206-207.

2. Bangla word "Grameen" means rural.

Ever since the concept of Grameen Bank was formulated in 1976, its founder Professor Yunus has emphasized rural development and poverty alleviation as its main focus. A few years later, many national, international and local level NGOs in Bangladesh started operating micro-credits. NGOs are registered with the Department of Social Services both at headquarters (Dhaka) and at local (district) levels, but a consolidated list is not available. The Directorate of Women Affairs has its own separate mechanism for registration of women NGOs, and there are a total of 1,108 according to the latest available information. The total number of NGOs currently registered with the Societies Act 1961, according to available information is over 13,000. Those registered with NGO Affairs Bureau numbered 663 (as of Feb, 1993), of which 119 were foreign NGOs of as many as 27 nationalities<sup>1</sup>. The majority of the recipients of these small loans are women. The loans received by the borrowers help to improve their economic well being.

**Table: 1 Chronology of Collateral Free Loan in Bangladesh.**

Year	Individual/ Organization	Description
1905	Poet Rabindranath Tagore	Founded Kaligram Krishi Bank in Patishar for group based small loans to rural farmers free of collateral.
1974	BRAC	Started program of micro-credit program in Sullah, Sunamganj.
1976	Grameen Bank <i>Project</i>	Experimental group-based collateral free loans to poor women in rural areas.
1983	Grameen Bank	Started operation as a development bank for providing collateral free micro-credit to poor people.
1983-	NGOs/MFIs	NGOs opened up micro-finance section and started operation of collateral free micro-credit.

1. Mia, M.S. Alam, *Poverty Alleviation in Bangladesh—An exploration*, Bangladesh Unnayan Parishad (BUP), Dhaka, 1993, P.124.

### 1.3 Statement of the Problem

Since the beginning of the 1970's, the non-governmental organizations (NGOs) have been playing an important role in the economy of Bangladesh, especially in poverty reduction through their micro-credit programmes. Despite vigorous efforts by the government and the NGOs, not a single Union Parishad could claim to have eradicated poverty fully. Sadly enough, it does not seem to have any significant improvement in the situation and the estimates vary between forty to fifty per cent of the population living below the poverty line. This means forty-eight to sixty million people are suffering from the curse of poverty, many of whom are in abject poverty.

The proximate causes of poverty lie in the increasing lack of employment opportunities. The lack of entrepreneurship causes unemployment, hinders the self-employment and adds poverty and hunger. The problems of unemployment and poverty in Bangladesh can be reduced by creating job opportunities through NGOs, in general, and setting up of micro-enterprises as it has the ample scope for generating employment opportunities, augmenting income of the people related to it and accelerating the process of industrialization, in particular.

Income generation through micro-credit has been one of the oldest approaches practiced by some of the big NGOs in Bangladesh. But due to rigid and inflexible terms and conditions of NGOs, the borrowers exercise very little control over the size or timing of their credit. Micro-credit may not be appropriate to borrower's particular project-of-the moment and credit size may also be inadequate. Sometimes the credit available is too small for the intended purpose and has to be stored until other funds can be gotten. Thus,

present micro-credit facilities are sometimes unable to meet the demands of the borrowers / entrepreneurs. Adequate capital is a necessary pre-condition for entrepreneurial development. If the potential entrepreneurs do not get adequate amount of credit, they cannot make required investment and enhance production. Business to a large scale is not possible without credit. Credit is the instrument by which the gap between production and consumption is bridged. NGOs as complementary to government and private sectors should create the necessary facilitating framework for linking micro-credit to the formal banking system. Business activities should be geared up with a rapid speed with the help of banks, which have been made slower in the absence of banking facilities resulting limited impact of micro-credit both in terms of sustainable poverty alleviation and entrepreneurial development.

More importantly, the present micro-credit system of NGOs for poverty alleviation in Bangladesh needs to be re-examined to find out the hurdles in the way towards poverty alleviation and ensure its sustainability. The poverty alleviation programmes cannot even achieve their goals, not to speak of sustainability, until and unless the NGOs emphasize on entrepreneurial development and link up micro-credit with the formal banking system to support the programmes.

Though it is argued that micro-credit was always a part of bank's lending system, it was hardly practiced in the past. Informal micro-credit institutions have, however, been in existence in Bangladesh for ages. Private moneylenders used to advance micro-credit to the villagers at very high interest rates, generally without collateral but the recovery method was oppressive. The innovative idea of Professor Yunus has led to the setting up of the Grameen Bank, which has introduced the formal and sustainable micro-credit facilities to the poor. But the ongoing micro-credit programmes



have been unable to alleviate poverty in a sustainable manner, as the entrepreneurial development could not be achieved through these programmes.

Extension of financial assistance to the potential entrepreneurs is the proper way to develop small enterprises. To establish a healthy and sustainable enterprise assessment for the financial involvement has to be rightly calculated before providing funds to it. A general feasibility could be done for attach involvement and a package of services could be offered. The absence of a viable, rural micro-credit system may cause a serious constraint for introducing such package at the beginning hampering entrepreneurial development. But the development of enterprises, it is expected that would attract the entrepreneurs and the constraints would gradually be removed. This would lead to the sustainability of the credit providing programmes.

Entrepreneurial development through micro-credit is essential for large-scale poverty alleviation in the country. The present micro-credit facilities have apparently reached only a limited percentage of the poor. A big majority is still without support. It is evident that despite the considerable efforts by Grameen Bank, BRAC and some other NGOs, there has been no appreciable improvement in the general poverty situation in Bangladesh. Moreover, the present micro-credits have not yet covered a large percentage of the poorest of the poor as they probably do not enjoy the support of the village inner groups that form a part of the micro-credit decision making process of some NGOs.

There is a strong need for linking micro-credit activities with the overall macro-economic framework of the country to attain a sustainable level in poverty alleviation. The two-way link between the bigger and the

smaller activities within the economy and their increasing interactions will accelerate the pace of the nation's socio-economic development.

When efficient and cost effective micro-credit services, now lacking, are made available in rural areas, an environment would require to be created that would enable to support entrepreneur-ship, innovation and production of the rural population thereby contributions to the growth of the entire economy. With this end the NGOs may bring a change in their micro -credit policy.

In this context, the NGOs need to find suitable and sustainable micro-credit mechanism to complement the public and private efforts for speedy poverty alleviation.

It is rooted in an insufficient and inadequate use of workforce. Although, reduction of poverty through higher employment generation continues to be the major objective of all the Five Year Plans, the economic development in the last two decades has failed to make a significant improvement in the sphere of employment generations for the vast majority of the rural people. About one-third of the labour force is unemployed or underemployed. The Second Five Year Plan envisaged creation of 3.7 million employment opportunity between 1980-81 and 1984-85, but the generation of new employment was estimated to be about 3.2 million, indicating a further deterioration of unemployment situation <sup>1</sup>.

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1. Haque, AMS, **Poverty, Employment and Human Resources Development**, *The Quarterly Journal of the Bangladesh Planning Commission, Government of Bangladesh*, Vol. 1, Issue No. 1, 1988, PP. 1-19.



In recent years, target oriented rural development programmes undertaken with focus on employment of landless poor households in rural areas have, however, created very limited employment opportunities for the poor. As a result, most of the poor people have to depend on informal employment with wage level less than the unskilled labour and are forced to live in extreme poverty.

The purpose of the present study, therefore, is to examine the existing micro-credit system of the NGOs in Bangladesh and how it could be improved, so that the poverty alleviation target and its sustainability would be achieved as well as how far the credit programmes are able to develop entrepreneurship from the borrowers.

#### **1.4 Hypotheses**

It appears that most of the following grounds relating to the micro-credit system of the NGOs lead to the failure of sustainable poverty alleviation programs in Bangladesh. The study poses these research questions or hypotheses in the overall investigation and analysis :

(1) In the absence of appropriate channels of credit delivery as well as delivery of other inputs like professional or skill development, saving habit, technology transfer, matching the ability and skill within possible results and marketing assistance, the target group could not derive the benefits as desired and micro-credit could not create the desired impact in the economy.

(2) Entrepreneurial development from the grassroots level to the national level could not be achieved through micro-credit if constrained by inadequate finance and credit. The small amount of credit given for a short period cannot pull the poor out of the poverty trap. Resource mobilization is also absent in micro-credit delivery system.

(3) The individual is not helpless and economically self-sufficient i.e., economically empowerment could not be established through micro-credit programs. The poor are not getting the real benefits between the production cost and sales price.

(4) The poor are being charged highly for micro-credit services. The NGOs offer micro-credit at commercial rates, enabling institutions to recover their costs and become self-sustained.

(5) It appears that the NGOs have so far failed to make the right linkages between their activities at micro-level and the wider systems and structures at macro level of which they form a small part.

The above hypotheses can be stated as “Entrepreneurial development from the grassroots level to the national level could not be achieved through micro-credit programs of NGOs in the absence of professional or skill development, savings habit, technology transfer, marketing assistance and inadequate finance and credit.”

### **1.5 Objectives of the Study**

With a view to analyzing the poverty alleviation strategy of the NGOs, the present study attempts to fulfill the following objectives:

- (a) To analyze the present activities of NGOs related to poverty alleviation;
- (b) To highlight the weaknesses of micro-credit operation system of NGOs;
- (c) To find out a change in the existing micro-credit delivery system of the NGOs with the support of formal banking system which will help entrepreneurial development for sustainable poverty alleviation through employment generation;
- (d) To increase people's participation through development of entrepreneur groups and to create new employment opportunities for small farmers, land-less labourers, women and other target groups;
- (e) To generate income and alleviate poverty of the poor through entrepreneurial development; and
- (f) To recommend some policy suggestions related to poverty alleviation strategy of the NGOs.

### **1.6 Justification:**

The studies show that the very poor, especially women, repay their micro-credit loans at rates of more than 98 per cent But good repayment is

not the only measure of the success of the credit system. Repayment can be accomplished under condition that may cause greater hardships to the poor. Many of the loans are as small as US\$ 100 and sometimes even smaller.

There are research papers on credit and family planning, credit and schooling, credit and nutritional status, and papers on the sustainability of the Micro-credit Institutions. But not a single paper looked carefully at whether borrowers found their loans useful, and none looked at borrower preferences for financial services and entrepreneurial development.

Research had concentrated on generating information about poverty situation, but the country needed research on the operation along with policy implementation. All the research had missed these two areas in the past.

It is time for a little common sense, time for us to start looking at the improvement of financial services for the poor as a worthwhile objective in its own right. This will mean a new concentration on the basic features of a high quality service for the poor---the intermediation of savings into loans, disciplined procedure, the elimination of entrance barriers, lower transaction cost (for both the provider and its customers), and flexibility and range of services.

More studies are needed to answer the question of whether loans by themselves are enough to enable people to go ahead, or whether they need to be accompanied by training in business principles or other technical assistance. Simply having credit does increase the range of choices available to the client and when people have choices they are in a very real sense of being empowered.

In this backdrop, an in-depth study of micro-credit system of NGOs need critical examination of the strategies, institutional arrangements, benefits flows, sharing and inter-sectoral linkages with a view to

recommending entrepreneurial development through micro-credit for sustainable poverty alleviation.

### **1.7 Coverage of the study**

As the issues relating to micro-credit is very wide, the study is confined to only the review of the present micro-credit system of NGOs for poverty alleviation in Bangladesh which needs to find suitable and sustainable credit mechanism to complement the public and private efforts for speedy poverty alleviation.

The NGOs working in Bangladesh with micro-credit programs for poverty have been selected from three categories viz., national level NGOs, regional level NGOs and local level NGOs. The system of micro-credit programs of these NGOs have been examined on sampling basis and covered as many areas of Bangladesh as possible within the limited time.

### **1.8 Organization of the dissertation**

Chapter-One deals with introductory part of this dissertation which include Prelude, Historical perspective of micro-credit in Bangladesh, Statement of the problem, Hypotheses, Objectives of the study, Justification, Coverage of the study and Organization of the dissertation.

Chapter-Two describes the Methodology of the research project i.e. operationalizing the concept of poverty, Non-Governmental Organization (NGO), Micro-credit, Sustainable development and Entrepreneurial development, establishing a procedure for data collection and data analysis this chapter also includes limitations of the study.



Chapter-Three reviews many books, articles and commentaries relating to NGOs, micro-credit, sustainable development, entrepreneurial development and poverty issues.

Chapter- Four is an overview of existing micro-credit system of some leading organizations/NGOs of Bangladesh such as Grameen Bank, BRAC, ASA, PROSHIKA and other local NGOs.

Chapter-Five is devoted to comparing the micro-credit programs of leading NGOs/ Organizations of Bangladesh.

Chapter –Six investigates the activities of various NGOs/ Organizations in Bangladesh and deals with case studies.

Chapter-Seven is the analysis of data and assessment of impact of micro-credit giving NGOs/ Organizations under case studies.

Chapter- Eight is the major research findings of the study.

Chapter-Nine concludes the study with some policy recommendations for improving the existing micro-credit system of NGOs/Organizations.

## CHAPTER-2

### Research Methodology

#### 2.1 The Conceptual Framework

Now a days, poverty alleviation has become a subject of discussion and studies in development circle both the national and international arenas. Scholars social scientists, donors, NGOs, political leaders, government bureaucrats etc. have shed light to various aspects of micro-credit as a tool for sustainable poverty alleviation.

Generally, poverty is defined by low income, low consumption and low affordability of civic amenities. The micro-credit programme has been developed *placing female borrowers at the centre of a family* to reduce poverty. The idea was that with the empowerment of a female member, a family's income generating capacity would significantly increase to support the male earners and thereby allow it to attain a better living.

From a greater perspective also it deserves attention. To transmit growth impulse to wider section of people and to alleviate poverty in a sustainable way, this needs to generate employment at their doorsteps and vitalize the industries sector. Such actions are also necessary for wider dispersal of income and opportunities and reducing the gap between rich and the poor and creating an industrial base from the bottom-up. Unless our countryside is dotted with many undertakings manned by large number of our small, competent self-reliant enterprising people, there is no end of the present misery and a measure of our developmental efforts will be taken up in merely rehabilitating our poor people through handouts, subsidies not providing growth a chance, and the country will continue to run, but it will remain at the same place.

It is in the context of this gap that further steps need be taken so that a new generation of entrepreneurs grow up all over the country because entrepreneurs can contribute better to help reduce hunger and poverty. To this end, there is the need for entrepreneurial development programs.

But so far not much seems to have been done to build up a new class of entrepreneurs. The existing micro-credit programs of NGOs now need to take care of entrepreneurial development. It would involve careful identification and selection of the target group with enough of potential for entrepreneurship and right type of motivation through the process of careful screening.

But the NGOs are working with insufficient capital. For this, the need for providing the rural poor with the access to credit from the formal banking system. The strategy of this banking biased project is credit support to the group members through banking system.

All these have to be taken seriously into account in order to address the struggle of the poorest in this society and only then we will see a positive change in our country's economy. In this context, the objectives of this research is to find out a change in the existing micro-credit delivery system of the NGOs with the support of formal banking system which will help entrepreneurial development for sustainable poverty alleviation through employment generation.

In this backdrop an in-depth study of micro-credit system of NGOs need critically examining the strategies, institutional arrangements, benefit flows and sharing and inter-sectoral linkages with a view to recommending entrepreneurial development through micro-credit for sustainable poverty alleviation.

## **2.2 Definition of Key Concepts**

Micro-credit operation is intimately related to the concepts of poverty, NGO, micro-credit, sustainable development and entrepreneurial development. Some of these concepts are still evolving and being discussed in the development economics literature. The following are some important definitions.

### **2.2.1 Poverty**

Poverty is not a new phenomenon. But with change of technology, growth of population, less development, atmosphere calamities, the people are becoming poor every day. The poor people are becoming migrant and moving from one place to another in search of jobs. Bangladesh is a small country with overburdened population.

Each country determines its poverty level on the basis of its annual per capital income. The word “poverty” becomes even more complex when it is taken into consideration that poverty is also interrelated with hunger and starvation. According to Nobel prize winner in economics, Dr. Amarta Sen, “Starvation is the characteristic of some people not having enough food to eat. People living below the poverty line go hungry days together not because of lack of food in the market but due to each of purchasing power on the part of the individual.”

Poverty is a gigantic socio-economic problem. The level and trends of poverty are measured by the deficiency in income and nutrition. Poverty is said to exist when an individual does not have capabilities to lead a healthy active life free of avoidable morbidity and premature mortality to develop inherent qualities for the satisfaction of self and the society and maintaining ones dignity with adequate clothing, shelter and other basic needs.



Ottawa-based North South Institute defined “poverty” as a state of economic social and psychological deprivation occurring among people or countries lacking sufficient ownership, control or access to resources to maintain acceptable living standards. In narrow sense, we can define poverty as a situation when an individual fails to maintain minimum subsistence level smoothly. Poverty is thus a multidimensional phenomenon.

It goes without saying that poverty is deep-rooted and widespread in Bangladesh. Concept of poverty may vary from country to country depending on their stages of development, geographical location, environmental conditions etc. In general, poverty is defined as lack of means to fulfil basic needs. Opinions vary as to which needs are basic and which are not. Commonly accepted basic needs are food, clothing, shelter, health and education.

He/she who lacks adequate means to fulfil one or all of these needs is said to in the state of what is called absolute poverty. The lowest stratum of absolute poverty can be described as extreme poverty. On the other hand, one may not be poor in the absolute sense of the term but may yet feel to be poor because he/she has not as much as his neighbor has. This is lack of means in relation to other peoples’ means. This situation is called relative poverty. Both absolute and relative poverty exists in Bangladesh, which has in fact a mass poverty situation of the term but may yet but to be poor because help he has not as much as his neighbor has. This is lack of means in relation to other peoples’ means. This situation is called relative poverty. Both absolute and relative poverty exists in Bangladesh, which has in fact a mass poverty situation.

The United Nations Development program (UNDP) provides two measures of poverty in Bangladesh: absolute poverty and hardcore poverty<sup>1</sup>.



Both measures are defined in terms of caloric intake. Absolute poverty prevails when a person consumes less than 2112 calories per day, while hardcore poverty prevails when a person consumes less than 1805 calories per day. The absolute poverty is a proxy for poverty line used by the government.

The definition of poor and the poorest being used by the Micro-credit Summit Campaign (MSC) at this time is : “ The poor live below their nation’s poverty line and the poorest are the bottom half of that group”. The MSC acknowledges that the definition has a weakness in that cost of living and quality of life vary from country to country. MSC has proposed a revised definition of the poor and poorest. “ The poorest are the bottom half living below their nation’s poverty or anyone living on less than \$1 a day purchasing power parity (PPP)”.

MSC recognizes that the revised definition raises questions regarding relative versus absolute poverty. According to the revised definition, “ the bottom half living below their nation’s poverty line” is a measure of relative poverty, while “ less than \$ 1 a day” is a measure of absolute poverty. In The World Development Report 2001/2001 (WDR 2000/2001) is devoted to poverty issues. In the report, the Bank approaches poverty as a global phenomenon and provides a measure of poverty in terms of people living on \$ 1 a day or \$ 2 a day.

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1. UNDP, Bangladesh Human Development Report Monitoring Human Development, Dhaka UNDP, Bangladesh, 1998.

The World Bank goes on to list the determinants of poverty in terms of people's assets:

1. Human assets, both mental and physical providing capacity for basic labour, skills and good health.
2. Natural assets, such as land.
3. Physical assets, such as access to infrastructure.
4. Financial assets, such as savings and access to credit.
5. Social assets, such as networks of contracts and reciprocal negotiations that can be called on in time of need, and political influence over resources.

While all the assets listed above and their returns are important determinants of poverty, perhaps the most important determinants are natural and physical assets. In the absence of these assets, a person often cannot have access to financial assets or credit. The role of micro-credit in alleviating poverty is related to the issues of lack of asset and lack of access of credit.

To alleviate poverty we must first, find out the reasons behind poverty. The following reasons are identified to be causing poverty in Bangladesh:

- (i) Lack of education
- (ii) Fatalism
- (iii) Corruption
- (iv) Dependence on nature
- (v) Misuse of health
- (vi) Lack of appropriate technology
- (vii) Absence of updated land reforms
- (viii) Non-industrial country
- (ix) Population boom
- (x) Political instability

- (xi) Labour problems and
- (xii) Sense of women insecurity.

The World Bank provides the following causes of poverty highlighted by the poor themselves:

(a) Lack of income and assets to attain basic necessities of life including food, shelter, clothing and acceptable levels of health and education;

(b) Sense of having no voice and power in the institutions of state and society; and

(c) Vulnerability to adverse shocks, linked to an inability to cope with them<sup>1</sup>.

Poverty alleviation issues are multi-dimensional. Poverty alleviation is the common and overriding objective of micro-credit operation in every society. A micro-loan is packaged for poor borrowers. In Bangladesh, micro-credit operation has been, and continues to be targeted towards lifting poverty from targeted segments of population. In February 1997 more than 2900 attendees including heads of governments from 137 countries gathered in the Micro-credit Summit in Washington D.C. to devise strategies for reducing poverty world wide. The historic Campaign ended with a resolution to “reach 100 million of the world’s poorest families, especially the women of those families, with credit for self-employment and other financial and business services by the year 2005” (Micro-credit Summit Campaign 2002).

The estimates indicate that the impact of the micro-credit program at village-level, poverty reduction is somewhat smaller---- only one per-cent of

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1. World Bank, **World Development Report, 2000/2001**, New York, Oxford University Press, P-34.

rural house holds freeing themselves of poverty through micro-credit in Bangladesh.

### **2.2.2 NGO (Non-Governmental Organization)**

The term NGO, which stands for non-governmental organization usually, formed for non-profit making purposes, came into after independence of Bangladesh in 1971.

The term NGO, which stands for non-governmental organization usually, formed for non-profit making purposes, came into after the independence of Bangladesh in 1971. Task Force Report 1991 defined NGO as follows:

- (i) Broadly “any institution or organization outside the government” but within civil society; and
- (ii) Functionally “all those organizations which are involved in various development activities with the objective of alleviating poverty among the rural and urban poor”.

The involvement of the NGOs in the development process of Bangladesh is not new. A good number of local and foreign NGOs are providing diverse services like literacy development, health education, self-employment, poultry-livestock projects, cottage, industrial and agricultural technology, infrastructure-building, etc.

Poverty is the enemy of development. The development oriented NGOs having primary relationship with the poor, they aim to create development from below and work directly with groups of poor people.

Though the formal financial sector in Bangladesh has a large rural credit programme and some have initiated micro-credit programs, for the most part, their rural credit programs neither target the poor nor reach the



poor. Moreover while targeting the poorest, the programme for rural work undertaken by the govt. only provide short term support in gaining access to income and employment opportunities. These programs have been inadequate in sustaining the productive means of the poor and thus have limited impact in permanent escape from poverty. In contrast, the experience of micro-credit programs shows that the lack of access to affordable credit is a major constraint in self-employment. Providing credit and other organizational input to the poor can help them become self-employed on a sustainable basis in familiar income generating activities.

NGOs have concentrated most of their energies towards targeting the poor and mobilizing them to develop their own organizations for alleviation of poverty. They are trying to alleviate poverty through directing and redirecting their expertise and resources towards raising the living standards of the poor. NGOs are repeatedly focusing on the design of poverty based developmental strategies. To best address acute problems many NGO initiatives have been implemented over the last couple of years. A salient feature of many such targeted programs is the provision of micro-credit for self-employment by various NGOs and as well as by a number of government agencies. This is now considered the core programme in all developmental efforts to fight against poverty.

Micro-credit programs have already covered 25 million people to through 5 million households. In spite of this, poverty alleviation programs have not been complete as many hard core poor are still out of reach of micro-credit programs. Neither the government nor NGO's micro-credit programs are able to cover them adequately. In this regard, though the



micro-credit programs of NGOs are being highly acclaimed by all quarters there is still room for their improvement.

Poverty alleviation or solving the problem of poverty is not so easy. The whole world is now anxious about the grave situation of poverty. The scenario of Bangladesh reflects that combined efforts are launched from both the government and non-government sides for alleviating poverty. But the NGOs are found playing a pioneering role in this field. About 80 per cent of the people of this country live in the rural areas, and nearly half of them are poverty affected. The sooner this severe problem can be addressed, the better. The organizations working at grassroots level has been trying hard to reduce poverty through implementation of different programs. Their programs include education, health, housing, human resource development, training, micro credit, etc.

Soon after independence, the government, through the Nationalization Order of 1972, took possession of all major industries. The private sector was left with no areas to operate except in cottage and small-scale industries<sup>1</sup>. The country's economy suffered major setbacks due to nationalization and financial mismanagement. The situation worsened further when a devastating famine hit Bangladesh in 1974.

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1. Reza , Sadrel and Shelley, Mizanur Rahman, Privatizing Industrial Regulatory Functions in Bangladesh, Dhaka, University Press Limited, 1994.

Against this backdrop, a number of humanitarian organizations set up relief and rehabilitation camps throughout Bangladesh. These organizations came to be known as Non-Governmental Organizations or NGOs. The NGOs were endowed with experienced professionals possessing experience of working in other developing countries. Their programs of rehabilitation in a devastated economy gained popularity and their numbers multiplied. Today, after over 39 years of independence of Bangladesh, the NGOs are present in every remote corner of the country performing a myriad of functions ranging from relief for the disaster-stricken and destitute population to providing training for empowerment of women and entrepreneurship.

Again, the term NGO, in Bangladesh context, has been defined “as an association of persons formed voluntarily through personal initiatives of a few committed persons dedicated to the design, study and implementation of development projects at the grass roots level. They function outside the government framework but they are bound by and work within the laws of the land. They are variously involved in multi- sectoral development projects combined with research, welfare services, human capability development through educational training, technology development, exchange of information and social communication. Their broad objective is poverty alleviation and their target groups are primarily the poor and the disadvantaged. Hence, the NGOs within the scope of this study are those organizations which are engaged in different fields of welfare, human capability development and income generating activities with resources received from donors-local or foreign ; some NGOs generate certain portions of their funds from certain surplus generating commercial activities they run for the purpose.

The NGOs, as they are now functioning in Bangladesh, may broadly be classified into the following broad groups:

**A. Donor NGOs**

These comprise international NGOs dispensing funds they raise or receive from their governments to various- NGOs national and expatriate-engaged in social, economic and development activities. Apart from providing funds to the local and national NGOs, some of them implement projects directly.

**B. International Action NGOs**

Such NGOs are those expatriate organizations who operate in various geographic and sectoral areas with operating funds obtained from foreign donors. Some of these NGOs are also acting as co-financing agents of their respective governments.

**C. National Action NGOs**

There are many of this type NGOs in the country. Some of them have earned reputation as effective organizations helping the poor and the disadvantaged through health activities, educational and training programs, and income generating activities.

**D. Local Action NGOs**

There are organization in local areas covering single or few villages, and are engaged in traditionally specialized activities in the locality. Sources of funding of these NGOs include the government and or nationally based donor agencies and other NGOs.

### **E. Service Oriented NGOs**

These NGOs usually provide specialized services to individuals, groups private and voluntary agencies, and other NGOs. Such services are varied and include among others, information dissemination, counselling, co-ordination, technical assistance, communication facilities, technology exchange, training, management, market promotion, information technology, programming and computer services, scientific research, and project development and designing.

NGOs seek to work in close contact with the rural poor, and are well placed to understand their culture and social behaviour. They usually focus on family planning, health, education, livestock, poultry, agro-based self-employed cottage industries and such recent innovative additions as environment, social forestry, renewable energy, social marketing, with the landless target beneficiaries in most cases.

#### **2.2.3 Micro-credit**

The word 'credit' is derived from the Latin word "c'redo" "credo" means "I believe" and is usually defined as the ability to buy with a promise to pay or the ability to obtain title to and receive goods for enjoyment in the present although payment is deferred to a future date. It therefore consists of an actual transfer and delivery of goods and services in exchange for a promise to pay in the future.

Credit is the most important intervention to break the vicious cycle of low status, poverty and large families. There is a direct connection between credit and ability of the poor to escape from poverty.



Business to a large extent is not possible without credit. The generation of credit arises out of the nature of present day consecutive industrial process of productive and distributive operations developed between the beginning of production and ultimate consumption. Credit is the instrument by which this gap – production to consumption is filled.

The lack of access to credit remains the binding constraint on the poor in their productive activities. The poor need credit to support their effort to create self-employment. It is to be mentioned here that a small farmer or a small entrepreneur having no access to institutionalized source of credit.

The modern era micro-credit loans are largely used as a means of boosting income of the recipients. In most cases, a borrower must belong to a group in order to qualify for a loan. A typical micro-loan ranges from Taka 1,000 to Taka 30,000.

Bangladesh seemed to have achieved significant progress in delivering micro-credit to the poorest people. The concept was born here. Bangladesh had also developed a viable network, which had reached remote village corners.

Micro-credit operation is intimately related to the concept of poverty alleviation. The concept of micro-credit is to advance capital for income generating activities without any collateral. A group (men or women) of five to ten members receive a loan and become responsible for repayments. The installments are divided into forty or fifty components including interest and service charges. The installments are realized in weekly meetings. The repayment starts immediately after receipt of the loan.

By definition, micro-credit is referred to empowerment of the poorest segment of the society which was currently about 25 per cent of the 12 crore people of Bangladesh. Thus out of 3 crore poorest people, about 2.5 crore



had already been taken under micro-credit services here. Taking a broader demographic view, about 50 per cent people were now regarded as poor in Bangladesh and the number of beneficiaries from small loans stood it around 3.5 crore.

The role of micro-credit in alleviating poverty is related to the issues of lack of asset and lack of access to micro-credit. It reduces poverty by increasing per capita consumption among programme participants and their families. Clearly, any poverty reduction program aimed at increasing consumption only without looking at income and productivity changes is not sustainable. While poverty reduction remains to the major focus, the analysis of the market and the growth of micro-entrepreneurs and their impact on the economy merit an in-depth analysis.

The financing scheme allows the recipients to improve the status of their living through access to additional capital without collateral.

Poverty Alleviation is the common and overriding objective of micro-credit operation in every society. In Bangladesh, micro-credit operation has been, and continues to be targeted towards lifting poverty from targeted segments of population.

Credit can help alleviation of poverty. It can also reinforce power of the powerful and help in concentration and inequitable distribution of income.

Micro-credit approach need to be supported by other interventions such as tr. and skill development, employment creation, development of marketing systems and small-scale agro-processing industries at the macro level.

A small loan offered to poor borrowers is called micro-credit which has evolved in Bangladesh. The concept of collateral free micro-credit

originated in Bangladesh around the beginning of the 20<sup>th</sup> century when International Bengali poet and Landlord Rabindranath Tagore founded the Kaligran Krishi Bank in Patishar village in the district of Naogaon in 1905. With the founding of the Grameen Bank by Professor Yunus of Bangladesh in 1983, Bangladesh has assumed leadership in providing collateral free micro-credit to poor clients.

It is a new line of credit, of whom 95% are women. In most cases, these poor borrowers do not qualify for a conventional loan since they have no means of securing loans through collateral.

A big portion of micro-credit goes to micro-borrowers. Through their operation, the micro-borrowers have not only done well for themselves, but also have contributed to the sustained growth of the economy of Bangladesh and helped alleviate poverty.

#### **2.2.4 Sustainable Development :**

Sustainable development is such type of economic development of a country which persists for longer period having the progressive trend of economic growth. For the World Bank, development is a process that ends with freedom from poverty and from other social and economic deprivations<sup>1</sup>.

Development, in broad sense, is a social process in which individuals participate as members of different institutions. This means that institutions have determining impacts upon human willingness and ability to participate in the development process.

The process of development is engineered by the people which is therefore, determined by the willingness and ability, of individuals to participate in the process.

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1. **The Independent**, Dhaka, 2 May, 1999, P-6.

No doubt, development is a process having no short cut. It is an endless process. So it is a prerequisite to maintain the continuous flow of development throughout the year. Development is a process of change from existing status to a better one.

Every individual and every country desire a state of development in a sense of economic prosperity. But development does not, at least initially, bear the identical meaning to everybody. To some, it may mean alleviation or better still, elimination of poverty. To others, it may primarily mean industrialization. Yet some others may refer to modernization as the kernel of development.

Development is not a one-way causation, neither does it proceed in a linear fashion. There are complex interactions and feedback in the process of development and learning process is certainly involved.

Development is a construct because drawing a boundary line of development is difficult. The definition of development is always tentative, situational and contextual; it is never static, final and complete.

Development today means empowerment of the people, which implies people's capacity to solve their own problems, capacity to decide their own future and the ability to fulfil their basic needs of life.

In the last half-century or so, the concept of development has undergone changes in meaning and content. Initially, growth in the gross domestic, product, GDP was equated with prosperity. The concept was further fine tuned into socio-economic development referring to sustained growth, structural transformation and uplifting the status of the relatively disadvantaged.

In recent times, the concept of development and its measurement is significantly influenced by the concept of sustainability. A sustainable development is stated to be one that promotes the enhancement of the standard of living of the present generation without jeopardizing that of the posterity.

There are different definitions of sustainable development. In broad sense sustainable development means meeting the basic needs of all and extending to all the opportunities to satisfy their aspiration for a better life.

However, a widely quoted one is, development that “meets the need of the present without compromising the ability of the future generation to meet their own needs” (World Commission on Environment and Development-1987)<sup>1</sup>. It is such a system that manifested the future production (International Agricultural Research Council). According to Food and Agricultural Organization (FAO), sustainable development is a permanent technical and institutional assertion, which is, directed to search source of natural resources, its management and conservation and to meet the demand of the future generation without interruptions. Sustainable development means to increase the living standard of the present generation and the living standard of the future generation must not be less than that of the present generation.

Sustainable development is not mere development, it involves more than growth which requires change in the concept of growth to make it more equitable in its impact and it will be based upon the reality of the stock of capital that sustains it.

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1. **The Independent**, Dhaka, 19 July 1999, P-6.



Economists put emphasis on achieving faster growth as a means to quicken poverty reduction. This is an irrefutable principle of poverty reduction.

Addressing of rural poverty is very important and this should be done in an integrated manner that may be termed as a sustainable development strategy. It means that there may be many policies in operations to lift up the poor but all of them should relate to the need of sustainable development.

Sustainable development is a development that satisfies the needs of the present without risking the needs of the future generation and it means that resources should not be used for the present generation only and they must not be exploited and destroyed but rather their full potential must be developed.

The concept of sustainability is widely invoked by many; but the precise meaning of sustainability is not yet clear. The Brundtland Commission report of the World Commission on Environment and Development (UNCED) – described sustainable development as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”. This definition leaves the meaning of the word ‘development’ undefined, brings out the notion that the process of improving present living standards should not be at the expense of the living standards of the future.

Applied to the situation of the poor developing countries, sustainability will require that “the strategies which are being formulated and implemented are environmentally sustainable over time, are consistent with social values and institutions, and encourage grassroots participation in the



development process. In general terms, the primary objective of development is reducing the absolute poverty of the poor. Thus sustainability involves a path of development.

Sustainability places particular emphasis on the relationship of the poor to the process of developments. In fact the test of development initiatives is in their ability to eradicate poverty.

The term "sustainable development" is used to communicate the idea that the processes by which people satisfy their needs and improve their quality of life in the present should not compromise the ability of future generations to meet their own needs. For most people, aspiring to a better quality of life means achieving a higher standard of life. Sustainable development is also understood as requiring equity: In order to achieve economic and environmental goals, social goals-such as universal access to education, health care and economic opportunity - must also be achieved.

The sustainable development means that the poor must be able to preserve their gains and go for further improving their lot. In rural Bangladesh, the poor are worst affected by their good experiences in one year followed by bad ones in the next year.

An underdeveloped country like Bangladesh needs sustainable development. In Bangladesh, most of the NGOs act as financial intermediaries among the disadvantaged people.

If the goal of development is to eradicate poverty, then sustainability would relate to poor families becoming self-reliant. However, the micro-credit programs sometimes seem more to provide regular employment and income to their workers while, at the same time, creating an indefinite dependence by the group members upon the credit NGOs. The goals of

development are based upon the value system developed and needs felt or perceived by the people.

Non-availability of the expected financial resources and technologies constrained Bangladesh, to meaningfully pursue sustainable development in practice.

Financial service to low income entrepreneurs may be the single most effective means to tackle poverty and create economic growth in a sustainable way.

From the above, it can be said that Bangladesh needs to find suitable and sustainable micro-credit mechanism for speedy poverty alleviation and rural development. The nation needs to find suitable and sustainable mechanism for speedy poverty alleviation and rural development.

### **2.2.5 Entrepreneurial Development**

Although the major goal of micro-credit operation is poverty alleviation, its growth has led to the emergence of a unique class of people -- -- the class termed as "Micro-entrepreneurs". The contributions of the entrepreneurs go far beyond generating a steady flow of income. They are agents of change. They innovate and open up new opportunities for others.

The term "entrepreneur" was first introduced in the Mercantilist age by Richard Cantillon (1680-1734). He defined this entrepreneur "as the agent who buys means of production at certain prices in order to combine them into a product that he is going to sell at prices that are uncertain at the moment at which he commits himself to his costs".

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1. Mondal, Wali I., Micro-credit and Micro-entrepreneurship – Collateral free loan at work in Bangladesh, Academic Press & Publishers Limited, 2002, page – 10.

Say defined an entrepreneur as an agent who combines other resources into a “Productive organism.” Later, John Stuart Mill developed the concept further and associated entrepreneur-ship with activities involving risk and profit (Mill, 1871).

According to Schumpeter, “the function of entrepreneur is to reform or revolution the pattern of production by exploiting an innovation or, more generally, an untried technological possibility for producing a new commodity or producing an old one in a new way, by opening up a new source of supply of materials or a new outlet for products, by re-organizing an industry.....”. He went on to attribute innovation as the business activity that brings about a new production function as a result of one or more of the following five economic activities:

- 1) introduction of a new good
- 2) adoption of new inputs to produce a new good or the previously produced good
- 3) introduction of new technology
- 4) opening of a new market; and
- 5) creating a new economic organization .

A brief description of entrepreneurial activities is presented below:

1. **The introduction of a new good:** Arguably this is the most important activity of an entrepreneur pertaining to the change in a production function. An entrepreneur seizes the opportunity to introduce a new product in the market that is currently not available to the consumer. In the context of Bangladesh, particularly in a new and emerging market, introduction of a new good has the prospect of maximum return to an entrepreneur.

2. **The introduction of a new method of production:** This refers to changing technological relationship or the existing production function. In order to order to lower the per unit cost of production, an entrepreneur may introduce a new method of production or substitute new and cheaper inputs in place of existing inputs. If an entrepreneur is successful in doing this, she or he will ensure the maximum profit from the sale of a new product. In the context of Bangladesh, where labour is abundant and cheap, micro-entrepreneurs typically look for substituting more labour for capital in devising newer methods of production.

3. **The opening of a new market:** This is one of the two functions of innovation. Once a product has been developed with the least cost method of production, an entrepreneur looks for a new market. In the context of Bangladesh, with an ever-growing population leading to unmet demands, finding a market does not seem to be a problem for an entrepreneur.

4. **The conquest of a new source of supply of a raw material :** This is the second function of innovation. Because resources are scarce, new source of supply of raw materials is an important factor in ensuring continuous supply of a newly developed product. In the context of Bangladesh, particularly where capital is scarce, a micro-entrepreneur has to continually search for new sources of supply of raw materials.

5. **The carrying out of a new organization of an industry:** The microfinance industry of Bangladesh is an example of a new organization of an industry. A number of commercial banks of Bangladesh have opened up new departments for micro-credit to the Micro-Finance Institutes(MFIs).

Poverty and unemployment are both the cause and the effect of ill health, creating a vicious circle in which poor health inhibits on individuals ability to work, thus reducing earning capacity and deepening poverty.



Poverty is also an underlying cause of disability and starvation, and a major contributor to mental illness, suicide, family disintegration and substance abuse.

The concept of development and the process of industrialization are so inter-linked that they are often considered to be one and the same. Since then, the main criterion for development has been an increase in per capita income mainly through industrialization.

Poverty, want of work and each of employment opportunities are the basic causes of rural to urban migration. For removing the ills associated with urban moving tendency, priority must be given to rural development and employment opportunities. The economic development will not be possible if the large numbers of people do not get work. In order to achieve the economic development, it is necessary to create employment opportunities for the larger masses of people. With this end in view, entrepreneurial development can be selected as an appropriate medium for a greater employment opportunity for the rural people to engage them in income generating activities while living in their own homes.



### 2.3 Methods of Data Collection

This research study did not cover all the institutions, agencies and NGOs engaged in poverty alleviation in Bangladesh. Only the NGOs engaged in poverty alleviation programs through micro-credit included in this research on the basis of sampling (purposive) at national (BRAC, ASA, Caritas, etc.) regional (TMSS) and local (JJS, Prottay, Bachta Shekha, etc.) levels. As many as 28 NGOs were undertaken for this research. Of which 15 individual cases were examined thoroughly for purpose of testing hypotheses.

The data for the study were collected from both the secondary and primary sources. The data from secondary sources include published books, articles and documents and unpublished reports and documents of national and international organizations, NGOs and research groups. The data and information collected from primary sources have been done through a sample survey. Field study through questionnaire (structured and unstructured), interviews and observations had been done. In addition, information from other different sources also had been collected. All these data have been analyzed to reach the conclusions. Data collection techniques are discussed in brief:

a) **For questionnaire** : General information of the study area, poverty situation, economic conditions of borrowers before and after getting loan, existing micro-credit system of NGOs, use of micro-credit and impact of micro-credit on their standard of living as well as our national economy to eradicate poverty collected through questionnaire.

- i) Approximate number of questions is around 20 (twenty).
- ii) Approximate time needed for interview was 6 (six) months.
- iii) There was no time frame for index-construction.
- v) The case studies would be analyzed regarding poverty alleviation, sustainability and entrepreneurial development (behavioural, managerial and social barriers, and additional employment generation) through a matrix.

**b) For interviews :**

- i. The micro-credit users, NGOs officials, bankers and experts on micro-credit were interviewed through free association and non-directive, focussed and direct.
- ii. Structured and unstructured questionnaire used for interview.

**c) For observation techniques :**

- i. Quasi-participant type of observation was used.
- ii. As many as units have been observed within the limited time frame.
- iii. Observation as well as questionnaire / interview technique were also attempted.

The findings of the research are expected to help in evolving suitable strategies for taking up micro-credit programs for sustainable poverty alleviation on a large scale.

### **2.3.2 Data Processing**

Different types of data i.e., general information of the study area, poverty situation, existing micro-credit system and other information collected from field visits placed in different groups and then these data tabulated and processed through computer.

### **2.4. Limitations**

Because of various constraints imposed by time and money, the study was confined to few districts where the NGOs work and paucity of required information and data.

### CHAPTER -3

#### REVIEW OF THE STUDIES ON POVERTY ALLEVIATION IN BANGLADESH

In the field of poverty and inequality measurements, very few scientific and organized studies have so far been done in Bangladesh. In the recent past this branch of study received increasing attention of policy makers and researchers. At different times government organizations and individual researchers have tried to measure the extent of poverty and inequality and explain the various factors causing them. The more important available studies amongst others are by Khan, A.R., Alamgir, M., Osmani, S.R., Siddiqui, K., Ahmed, Q.K., Hossain, M., Rahman, A. and Hoque, T, and Bangladesh Bureau of Statistics (BBS).

The main concern of Khan's Study (1977) was to estimate the proportion of households and individuals who were in absolute and extreme poverty in rural Bangladesh for 1963-64, 1968-89 and 1975 (first-quarters). The estimated figures indicated a sharp increase in incidence of rural poverty between the first two periods. The percentage of households under poverty increased from 51.7 in 1963-64 to 84.1 in 1968-69 and then declined to 70.3 in 1975. This decline was, however, explained by the fact that estimate of calorie requirement was not same and the estimate was based on Household Expenditure Survey (HES) of only one quarter of 1975, and as such, we cannot ascertain the possible direction of bias due to this factor. In a study, Khan (1990) made an indirect estimate of threshold income for rural areas on the basis of 2112 k. calories and 58 grams of protein per day per person. Rural families with per capita income below 1.25 times the cost of specified food bundle were classified as moderately poor. Subsequently, he adjusted the threshold income over time by using the cost of living index. According

to his estimates and based on Household Expenditure Survey (HES) data, about 56 percent of rural population in 1973-74, 70 percent in 1981-82, 39 percent in 1983-84 and 35 percent in 1985-86 were found to be moderately poor. The corresponding figures for extremely poor were 43, 57, 24 and 21 percent respectively. The estimates of poverty ratio indicated that incidence of poverty increased sharply between 1973-74 and 1981-82 and then declined dramatically between 1981-82 and 1983-84 but modestly between 1983-84 and 1985-86. Khan suggested two important points regarding apparent improvement in the poverty situation in mid 1980s. The first point relates to the methodological change in data collection (complete count of food consumption) from 1983-84 made by BBS, while the second one relates to the improvement in real wages of agriculture labour over the period. But some researchers pointed out that it is hard to conceive the reduction of extreme poverty by 60 percent over a brief period of two years time.

The main focus of Alamgir's study (1978) is on measuring the income inequality and poverty indices for 1963-64, 1966-67, 1968-69 and 1973-74 in the urban and rural areas of Bangladesh. In Alamgir's study, he analysed critically in the light of the level and structure of real income, poverty and inequality in Bangladesh. A historical perspective was also provided for identifying the processes through which social forces interacted for producing underlying trends in poverty and inequality. He used data particularly from BBS and published materials of Bangladesh Institute of Development Studies (BIDS) for different periods from 1959 to 1973-74 for urban and rural areas. His findings indicated a decline in incidence of poverty between early and late sixties. He also proposed a new index of poverty as the average of Gini index and composite poverty index as developed by Sen (1976).



That index is, however, subject to many criticism: Osmani points out that Alamgir's index is not altogether legitimate but appropriate only in specific context. The evidence of increase in proportion of poor in urban and rural areas shown by Khan and Osmani is contradictory to the findings obtained by Alamgir who concluded that proportion of the poor decreased from 87 percent in 1963-64 to 62 percent in 1966-67 in rural areas and from 73 percent to 51 percent in urban areas. A number of points can be raised in this regard. Osmani (1982) and Mujahid (1977) correctly took issues with Alamgir's findings as he did not adjust inter-household income distribution with household size ; the consumption pattern of only agricultural labours was taken into account, etc. His efforts were more directed towards measurement of poverty line and index than explaining the causes thereof.

Khan, Islam and Huq (1981) made an attempt to estimate poverty for two villages only. They preferred to adopt the method of estimating per head income to provide a family with stipulated level of calorie per head (2250 k. calories and 2150 k. calories for the poverty and the acute poverty respectively). In that sense of poverty, 10 to 12 percent households in Bhatpara and 30 percent households in another village Bhabanipur were found to have inadequate income for the intake of adequate energy from food.

Osmani (1982) in his study developed more scientific methods to examine economic inequality and construct poverty line. He explored some of these new avenues in the realms of both theory and practice. Normative approach to inequality has been discussed in his study for comparison of inequality and poverty with the existing measurement. Osmani constructed the poverty line for Bangladesh on the basis of an interpersonal distribution of expenditure, the nutrition coefficient matrix, information on the physical



amounts of different food items consumed at various levels of expenditure and the minimum nutritional requirement vector. He studied rural poverty for the period 1963-64 and 1973-74. The results led to the interpretation that a less severe overall poverty was found in 1973-74. He concluded that the proportion of the poor was lower in 1973-74 but the absolute number of the poor people were considerably higher and so the average poverty was higher in that year in comparison with that of 1963-64. In spite of different methods used by Khan and Osmani, their conclusions in respect of poverty were similar. Osmani's study contains some other important findings which reveal that social welfare declined from 1963-64 to 1966-67. Neither Khan nor Osmani made further attempt to delineate the causes and effects of poverty. Osmani (1990) in his study tried to analyse the change that has occurred in the structure of labour force in rural Bangladesh and to relate this change to the recent trend in poverty. He observed that the volume of non-farm labour-force has increased to a great extent in the post-liberation period which was associated with the increase in income and consequently decrease in incidence of poverty. Osmani also made a critical review on poverty estimation done by World Bank (WB), Bangladesh Bureau of Statistics (BBS) and Rahman and Hoque. He concluded that the methodology followed by Rahman and Hoque leads to the result of increasing poverty, while that followed by WB and BBS showed a decline in poverty. But, BBS admitted that HES data for 1973-74 were based on an incomplete enumeration of calorie consumption which led to an underestimation of total calorie intake and hence over-estimation of magnitude of poverty. In view of this problem, Osmani re-estimated the poverty ratio for 1973-74 taking full count estimates of calorie consumption and using the methodology adopted by WB and BBS. The modified estimate of moderately poor was found to be

62-68 percent, while for extremely poor it was 25-29 percent. The corresponding figures obtained by WB and BBS were 82.9 and 44.3 percent respectively. But between 1973-74 and 1983-84, Osmani observed that while there was a fall in moderate poverty from 63-68 to 57 percent, there was a rise in extreme poverty from 25-29 to 38 percent. The main explanation was the exclusion of certain minor items during Household Expenditure Survey in 1973-74. Osmani (1990) also provided interesting explanation of this phenomenon. In another study, he gave detailed critique of the BBS data and the methodology of poverty estimation adopted by WB and BBS as well as his own alternative approach.

Siddiqui's study (1982) has a good historical perspective of rural poverty but it lacks empirical support. The main concern of his study was on the identification of factors which cause, aggravate and perpetuate poverty in rural Bangladesh. Attempts were also made to analyse the forces which are responsible for rural poverty within the frame-work of agrarian structure. He also tried to establish the international dimensions and to examine the urban forces contributing to rural poverty. His study was based on information obtained from a single village of Jessore district in 1977-78. Due to the limitation of sample size, his findings may not be generalized for rural areas. He did not make any attempt to measure the poverty line or extent of poverty. In his study, a positive correlation between the level of food consumption and land ownership position of the household was found.

Bangladesh Bureau of Statistics (BBS) has analysed poverty situation in Bangladesh for the years 1973-74, 1981-82, 1983-84 and 1985-86 on the basis of data generated by the Household Expenditure Survey (HES). In its analysis, extent of poverty, and poverty line expenditure were estimated by relating per capita calorie intake with the per capita expenditure for different

expenditure groups. Calorie expenditure graph was used to estimate the per capita expenditure for calorie line (2122 or 1805 k. calorie). Based on this analysis 51 percent of the population in rural areas consumed less than 2122 calorie per day in 1985-86. The proportion of population living below the “hard core poverty” line ( 1805 k. calorie) was found to be 22 percent in the same year. In 1985-86, Tk. 331.0 and Tk. 250.0 was needed for intake of average per capita 2122 k. calorie and 1805 k. calorie respectively for rural areas. According to BBS estimate, the incidence of poverty in rural areas seems to have significantly improved over 1973-74 to 1985-86 period. In 1973-74, about 81 percent households were below the poverty line income, the corresponding figures for 1981-82 and 1983-84 were found to be 68.0 and 57.0 percent respectively.

A report to the ‘Like-Minded Group’ [ LMG (1990)] provided an alternative approach and conceptual issues of rural poverty in Bangladesh. The main focus of the approach was to place the processes of poverty within the wider socio-economic and political context of Bangladesh. In addition, two sets of questions were addressed in this report. The first set relates to the present configuration of rural poverty and changes over time, while the second one relates to the patterns of development assistances and how these assistances affect the level of living of the poor within the context of national policies and programs. Poverty line income was also estimated in this report on the basis of the methodology suggested by the FAO/WHO. In order to compute the minimum calorie requirement based on that methodology, the “expected body weight for existing height was multiplied by energy required per kg. of body weight”. The cost of the minimum prescribed calorie requirement was worked out and added to the costs of other essential basic non-food items to obtain poverty line income. The costs of meat, milk and



sugar were not considered in estimating the total cost of food items on the ground that there was very little consumption of them by the rural poor. On the other hand, about 50 percent of the required cost of fruits and vegetables was taken as these commodities were assumed to be consumed by the rural people from their own produce in the kitchen garden. Furthermore, only 15 percent of the total cost on account of food items was considered for non-food items, even though the Household Expenditure Survey (1976-77) estimated this figure at 25 percent. In these respects, the poverty line income set in this report was very much conservative. However, the poverty line income at current price per household per month was estimated at Tk. 220 for 1963-64, Tk. 722 for 1973-74 and Tk. 894 for 1976-77, while the percentage of rural population below those poverty line income was found to be 75.0, 74.5 and 83.0 respectively.

Ahmed and Hossain (1984) in their study suggested some policies for alleviation of rural poverty and estimated poverty line incomes for some selected years. The estimate of poverty line income as recommended by FAO was further adjusted by them on the basis of consumption habits in respect of some commodities like milk, meat, sugar, fruits etc. They calculated the poverty line income by taking into cognizance the minimum cost of food and non-food items. Though the Household Expenditure Survey (1976-77) computed that the expenditure on non-food items account for about 25 percent of the total cost of food items, Ahmed and Hossain considered only 15 percent of the recommended costs of food items to arrive at the poverty line income for rural Bangladesh. On this basis, they estimated the poverty line income at current prices per household per month at Tk. 148.0 for 1963-64, Tk. 501 for 1973-74 and Tk. 586.0 for 1976-77. The percentage of rural population below poverty line income was found to be

52.0 in 1963-64, 55.07 in 1973-74 and 61.1 in 1976-77. Some researchers in this line, however, pointed out that the estimates of proportion of the poor were low mainly because of their conservative estimate of poverty line income and assumptions made on some food and non-food items.

Hossain (1988) attempted to examine the impact of credit for alleviation of rural poverty. He undertook this study as an evaluation on Grameen Bank Prokalpa<sup>1</sup>. Hossain observed that Grameen Bank had a pervasive effect on the credit market in respect of accumulation of capital by the poor, employment generation, poverty alleviation etc. On the basis of 2112 k. calories and 58 grams of protein he computed the cost of consumption bundle for 1984-85 at Tk. 9.85 per capita per day. Based on certain assumption he also estimated threshold income for moderate and extreme poverty at Tk. 3500.0 and Tk. 2975.0 respectively per capita per year. From his study he observed that about 84 percent of the total population of target-group non-participants in project villages and 80 percent in control villages were in moderate poverty, while this figure was only 61 percent for Grameen Bank members. Those living in extreme poverty were estimated at 48 percent for member and 75 percent for non-member group. Hossain concluded that the Grameen Bank has made a positive contribution to the alleviation of rural poverty. In another study Hossain et al. (1990) analysed the effect of adoption of modern variety of rice on the distribution of income and incidence of rural poverty. They also estimated poverty line income based on 2112 k. calories per capita per day. About 30 percent of the estimated cost for food items was considered as the cost of non-food items.

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1. Bangla word “**Prokalpa**” means project.



Considering these two components of cost, the poverty line income for 1987 was estimated at Tk. 4300.0 per capita per year. Based on this estimated poverty line income and household data gathered from 62 sample villages, it was observed that 60 percent of the total population were in moderate poverty. Incidence of poverty and adoption of modern rice technology showed an inverse relation. Hossain et al. also observed that about 51 percent of the total population were below poverty line income in the “high-adopter” villages, while it was 56 percent in “low-adopter” villages and 66 percent in “medium-adopter” villages.

Rahman and Haque (1988) attempted to examine the dimension and trend of poverty and inequality in Bangladesh over the time spectrum of 1982 and 1984-85 on the basis of data collected by BBS and subsequently making a comparison with other secondary sources. Based on three different methods viz., the income method of measurement, calorie-income graph based on primary or grouped data and estimated actual calorie intakes of respondents, they studied the extent of poverty. The authors adopted the adjusted minimum consumption bundle which provides 2200k. calories and a minimum of 61.1 gm. of protein per person per day as prescribed by FAO to make the results comparable with BBS estimates. Findings from an analysis of various poverty correlates do not support that poverty has reduced drastically vis-a-vis an increase of government development programs over the early eighties.

Streeten (1990) in his keynote paper made a comprehensive overview of the conceptual issues of poverty measurement. A six step procedure was proposed by him to construct a more meaningful measure of poverty. After identifying the problems that arise in defining a poverty line and constructing

poverty indices, he suggested a set of monitoring indicators and some institutional mechanisms to construct a more meaningful measure of poverty.

Ravallion (1990) in his study investigated the robustness of some estimates which present a dramatic decline in poverty in Bangladesh in 1980s. He indicated that HES data collected by BBS showed a real per capita consumption growth rate of 9.9 percent per annum between 1981-82 to 1985-86 as against 0.5 percent according to National Account (NA) data. Ravallion pointed out that higher growth rate in HES data appears to be highly exaggerated. His study had two other attractive features. The first feature provided us "deeper" estimate of poverty. Ravallion's revised estimate based on NA data showed initial decline followed by a rise. The second feature consisted of assessing the impact of distribution-orient neutral growth of poverty.

Sen, Binayek et al. (1990) started their study on poverty trend with the objective of addressing perceived weaknesses in the conceptual and empirical understanding of rural poverty. Overviews of various studies and national surveys on nutrition and poverty were discussed in their study. Three independent indicators of poverty, namely, (i) per capita income (ii) household's self-evaluation about its deficit status and (iii) housing condition were used to measure the extent of rural poverty. The poverty line income was also estimated on the basis of 2112 k. calories. About 25 percent of total cost for food items needed to meet the said calories was considered as the cost of non-food items. The poverty level income at 1987-88 rural retail price was estimated at Tk. 4608 per capita per year. Based on household data gathered from 62 sample villages and three independent indicators, the percentage of rural household living in poverty was found to be about 60,50 and 52 respectively. The incidence of poverty by occupation was also

reduces poverty by increasing per capita consumption among program participants and their families. Khandker estimates that with an 18 percent annual increase in consumption, a poor household consisting of six members could be “ free of poverty by borrowing about Tk. 12,000 (\$300) a year.”

Khandker’s work has much value in addressing poverty reduction through micro-credit. He uses additional consumption as the basis for poverty reduction and asks the question if such programs are sustainable. Clearly, any poverty reduction program aimed at increasing consumption only without looking at income and productivity changes is not sustainable. Besides, his work focused on three programs only and did not address such critical issues as non-group based lending and lending to micro-entrepreneurs. Micro-credit operation in Bangladesh has grown significantly giving rise to a market that is as diverse as any market with potentially 30 million customers. While poverty reduction remains to be the major focus, the analysis of the market and the growth of micro-entrepreneurs and their impact on the economy merit an in-depth analysis.

There is quite a good number of literature on micro-credit in the country and also in other parts of the world. These literature have mostly dealt with general micro-credit approaches. The entrepreneurial approach of the micro-credit and linkage with the banking system can hardly be found in the available literature. However, some literature have touched the issue with particular emphasis on the extension of the micro-credit in the country. There are published books, articles and other research papers which make contribution to this end.

estimated by them. The highest percent (82%) of agricultural wage labour households was found to be in moderate poverty which was followed by the households engaged in cottage industry (64%), while those engaged in service showed the lowest incidence of poverty.

There has been much discussions on the role of an entrepreneur in developed and developing economies after the work of Schumpeter, particularly by Sweezy (1943), Leontief (1937), Angell (1941), Wright (1947), Lange (1943), Rostow (1948) and McDaniel (2002). The debate usually centered on the role of entrepreneurship in invention and innovation. More importantly not much has been done in relation to a developing economy. Although Rostow provided the theory of stages of economic growth, much of his theory came under close scrutiny in the later half of the twentieth century particularly with the onset of a service economy. Many developing economies showed signs of prosperity through proper planning of their manpower and surplus labor. The globalization of the world economy speeded up the process of integration of both developed and developing economies. Bangladesh planned for the utilization of its surplus labor through significant investment in labor-intensive industries such as garments and apparels, food processing and handicrafts.

There is a rich body of literature on the causes of poverty (for example, Sen, 1997, 1993, 1984; Lipton, 1977, 1996; Kohli, 1987 ; Norton, 1998).

Khandker (1998) has examined the role of micro-credit operation in Bangladesh in relation to poverty alleviation through three large programs . Analyzing data from these three programs, Khandker finds that micro-credit



reduces poverty by increasing per capita consumption among program participants and their families. Khandker estimates that with an 18 percent annual increase in consumption, a poor household consisting of six members could be “ free of poverty by borrowing about Tk. 12,000 (\$300) a year.”

Khandker’s work has much value in addressing poverty reduction through micro-credit. He uses additional consumption as the basis for poverty reduction and asks the question if such programs are sustainable. Clearly, any poverty reduction program aimed at increasing consumption only without looking at income and productivity changes is not sustainable. Besides, his work focused on three programs only and did not address such critical issues as non-group based lending and lending to micro-entrepreneurs. Micro-credit operation in Bangladesh has grown significantly giving rise to a market that is as diverse as any market with potentially 30 million customers. While poverty reduction remains to be the major focus, the analysis of the market and the growth of micro-entrepreneurs and their impact on the economy merit an in-depth analysis.

There is quite a good number of literature on micro-credit in the country and also in other parts of the world. These literature have mostly dealt with general micro-credit approaches. The entrepreneurial approach of the micro-credit and linkage with the banking system can hardly be found in the available literature. However, some literature have touched the issue with particular emphasis on the extension of the micro-credit in the country. There are published books, articles and other research papers which make contribution to this end.



## CHAPTER-4

### **AN OVERVIEW OF EXISTING MICRO-CREDIT SYSTEM OF LEADING NGOs/ORGANIZATIONS**

#### **4.1 Grameen Bank**

Grameen Bank (GB) has its origin in an action research project started in 1976 by Professor Muhammad Yunus in a small village close to the campus of the Chittagong University, where he had been teaching economics. The research represented an act of defiance as its operation contradicted the basic norms of hitherto conventional banking. The project gave loans in small amounts to the assetless poor, mostly the women without any collateral security. The borrowers had been organized in small groups meeting at least once in a week, where they socialized, discussed their own problems, attended 'motivation classes' conducted by the projects' field personnel, deposited weekly installments of the loan repayments and also made weekly contributions to the personal savings fund.

With the support of the government and under arrangements with the Bangladesh Bank (Central Bank of Bangladesh) and funding assistance by donor agencies the project expanded its operation area in 5 districts during 1979-1982 and was institutionalized in 1983 as an independent quasi-government organization enjoying the status of an NGO and is managed by an autonomous committee.

As of February 1995, the cumulative amount of loan disbursed by Grameen Bank was Tk. 49246.68 million (US \$ 1338.4 million) to those who were traditionally considered as non - bankable. Grameen Bank provides not only general credit for small scale off-farm activities, but has also house building loans, seasonal loans for crop production, small loans for

installation of hand pumps for irrigation and drinking water and the loans for building sanitary latrines. The loan programs of Grameen Bank are centered around the 'Sixteen Decisions', which required the GB members to pledge that they will send their children to school, grow vegetables round the year, plant trees, keep the families small and the environment clean, use sanitary latrine and safe drinking water, do physical exercise, repair houses and work towards not living in dilapidated houses, avoid dowry in marriage, work collectively and for mutual help and above all, maintain the four main principles, -Discipline, Unity, Courage and Hard Work.

The Grameen Bank approach to poverty alleviation is based on supplying credit and human development inputs to improve physical and human productive capacities of the poor. The GB is not different from the formal and informal lenders in an imperfect market in the sense that it has a target group and certain loan conditionality and the borrowers are to repay on time. But while the formal credit institutions provide credit to any social group or individual who can provide physical collateral or the informal moneylenders use a patron client relationship or the capability to pay exorbitant interest rates, the Grameen Bank provides credit to the poor rural women and without physical collateral and biases in targeting its loan portfolio. The loan conditionality and the repayment terms have been designed according to the abilities of the borrowers.

The GB now has more than one thousand branches spread all over the country. The operating system of Grameen Bank had developed through the years of experience with trials and errors and is now more clearly defined. The essential features can be replicated in Bangladesh and also abroad under different socio- economic milieu. The replication efforts have begun in Malaysia, The Philippines, Indonesia, Sri Lanka, as well as in some countries

of East and West Africa and in such developed countries as the USA and Canada.

The main features of delivery-cum-receiving system of Grameen Bank may be summarized as under:

1. It focuses exclusively on the 'poorest of the poor' in the community and the exclusiveness is ensured by
  - (a) establishing clearly the eligibility criteria for selection of targeted clientele and adopting practical measures to screen out those who do not meet them;
  - (b) assigning priority to the poor rural women; and
  - (c) gearing the delivery system to meet the diverse socio-economic development needs of the poor.
2. The poor are organized into 5 member homogeneous groups, a number of which are federated into a center working as the field operation unit of the GB member. GB field workers attend weekly meetings of the groups at centers where they conduct the motivation campaign, the bulk of the credit related transactions and the accounting in the most transparent manner.
3. The GB provides very small amounts of loan repayable in weekly installments spread over a year and the eligibility for a subsequent loan depends upon repayment of the first loan. (GB has a relatively large size loan portfolio for housing and for joint ventures of the groups).
4. Credit is closely supervised by the groups as well as by the bank staff and the credit discipline is maintained as collective responsibility and by peer pressure.

5. Compulsory and voluntary savings work as special safeguards and minimize the risk confronted by the poor.
6. Simultaneously with credit the GB takes up the social development agenda like socio-political consciousness, literacy, tree plantation, awareness about nutrition, community health and environment and so on.
7. The field and office staff are given special training for providing the poor with credit and community development services and the decision making, organization and management are decentralized.

#### **4.1.1 The Management**

The Managing Director is the chief executive of the bank. The Board of Governors is comprised of the Chairman, the Managing Director and 13 other members, 9 of which are to be selected from the Grameen Bank (GB) borrowers- shareholder. The Board approves the policies of the bank and serves as the link between the bank, the Ministry of Finance and other government organizations.

The branch office is the lowest administrative unit of the GB and is considered the profit responsibility unit . A GB branch normally covers an area of about 15 to 20 villages located in one or two (neighboring) unions in the vicinity of the branch office. A branch office supervises 50-60 centers and is staffed by a Branch Manager, six Bank Workers, one Accountant and one or two Bank Assistants. For accounting purposes, the bank charges 10% interest on the funds it lends to branch offices for disbursement to the borrowers at an annual interest rate of 16% (now enhanced to 20%).

About 10 to 15 branch offices are supervised by an area office headed by the Area Manager, who is the final authority for approval of loan



proposals recommended by the Branch Managers. The Area Manager, with the help of a number of Program Officers, supervises the loan utilization and recovery. The area offices are accountable to the zonal office located in the district head quarters. Each zonal office supervises 5 area offices and is manned by 50 staff with the Zonal Manager and two Senior Principal Officers at the top. Other personnel in the zonal office are 15 senior officers, 5 officers and some support staff. The Zonal Manager is responsible for managing funds and the accounts and also for monitoring, evaluation and supervision of the credit and social development programs. The zonal offices are highly independent and maintains link with the Head Office located at Dhaka. All the zonal, area and branch offices enjoy a very high degree of autonomy in executing their functions.

#### **4.1.2 The Credit Delivery Mechanism**

The GB approach is to take the banking services to the doorsteps of the target group population i.e., the poor because most of them are illiterate and are shy about or face difficulty in coming to bank. The process starts with conducting by the Area Manager a socio- economic survey of the possible operation area and sending of the report to the head office. The survey covers geography, economy, demography, transport, communication and the political power structure of the area. Once the report is approved by the head office and the proposed area is selected for program operation, Branch Managers organize general public meetings with the local people for introducing the purpose, programs and the rules of Grameen Bank.

A person from a household that owns less than 0.5 acre of land or assets valuing less than the price of 1 acre of medium quality land, is eligible to become a beneficiary of the GB general loan program. Interested persons

are asked to form groups of five like-minded individuals of similar economic standing, residing in the same village and enjoying mutual trust and confidence. Only one person from a household can be a member and relatives must not be in the same group. Male and female members are to form separate groups.

Each group elects a chairperson and a secretary and these positions rotate among the members on yearly basis. The chairperson is responsible for discipline in the group and for supervision of loan utilization by the members. 5 to 8 groups form a centre with an elected centre chairperson and a secretary. Members of a centre jointly settle a place for weekly centre meetings which are to be attended by all the members and where they discuss individual and collective issues relating to the use of loan as well as to norms and rules of Grameen Bank.

When a group is formed, it is kept under close observation for a month by the Bank Workers to see if members are conforming to the discipline of the GB. The member/borrowers are obliged to participate in a group motivation/ training program for a minimum of seven days of continuous instruction by the Bank Workers. The instruction package includes understanding of the various bank procedures, the credit and the savings plan, the methods of participation in the community development activities and the duties and responsibilities of the members. The group chairperson and secretary and the centre chief. That the borrowers have the opportunity to discuss almost everything about the loan package including the terms and conditions, the GB may be said to have introduced a credit delivery system that solved the problem of asymmetric information, which prevails in case of lending by the traditional institutions and further, the

borrowers of GB are the active and direct participants in the lending process which has a better enforcement mechanism- a group solidarity.

A maximum of Tk. 5,000 is given as loan for one year to an individual member. The rate of interest on the loan is 16% a year. The interest payment however, comes to 8.12% of the loan, since the payment is amortised over fifty weeks and a declining balance method of accounting is followed to calculate the amount of interest. Presently the interest rate has been increased to 20%, which on a reducing balance basis estimate, becomes about 10.25% per annum.

Initially, two members of the group receive loans and their loan use pattern and the repayment behaviour are observed for about 6 weeks. If they successfully complete this 'probation' period, the next two members become eligible for loans. The group chairperson is the last member to receive the loan. A repeat loan for a new one-year term is not approved for a member until the accounts of all members for the previous year loan are settled.

A borrower is to start using the loan immediately after the disbursement and the principal is to be repaid in 50 weekly instalments. A member may leave the group when the loan is fully repaid. If a member leaves without repaying, the responsibility for paying the balance goes to the remaining group members. When an entire group defaults, the responsibility of repayment falls to the centre. Credibility of group therefore, is the main stance of the GB credit operating system.

#### **4.1.3 The Savings Component**

In order to overcome financial imperfections and promote the financial security of members, the GB scheme requires the members to make deposits of different kinds of savings. The GB deducts 5% of the loan

disbursed to each borrower and the amount thus kept aside at the time of disbursement cannot be reclaimed by him. This fund is named as Group Fund of Group Tax I. Group members can borrow from it with the approval of the fellow group members and at interest rates determined by them. If any fund is given as loan from group fund, a 5% 'tax' of the principal is retained by the bank and the fund constituted by such tax is known as Group Tax II. Thus the savings serve as sources of additional fund for GB, which uses the money in increasing its credit to borrowers and also in reducing dependency on outside borrowing.

GB has set up a number of special funds to enhance the financial resilience of the borrowers and to protect them against external shocks and natural disasters. One of such funds is the Individual Savings Fund, which is made up of individual savings at the rate of Tk. 1 (one) each week. This saving however, is refundable when a borrower leaves the group as retiring or drop-out members and it earns interest @ 8.5% per annum. A member can borrow from the Individual Savings Fund for consumption at times of sickness or social ceremony. Loans from this fund may also be allowed for investment if all members of the group agree and the loans are normally granted interest-free.

The GB borrowers are encouraged to voluntarily contribute to another fund known as the Special Savings Fund. The centre decides on the amount of contributions that the members would make, varying usually between 1 and 5 Taka per member per week. The fund is managed by the centre and is usually earmarked for joint enterprises and construction of the centre's common shades or house, where the weekly meetings take place and where the centre school is accommodated.



An important fund generated from obligatory contributions by individual members of the group is the Emergency Fund. For over a long period the contribution of a borrower to this fund has been equal to 25% of the amount charged by the bank as interest. The system was changed and now, a borrower taking a loan up to Tk. 1000 does not contribute any amount to this fund, but in case the loan amount exceeds Tk. 1000 of loan. The fund is created for insurance coverage in case of default, death, disability, or other unforeseen events. This fund is kept deposited with the Grameen Bank at 8.5 % annual interest and is managed by the centre.

It is obligatory for the GB members to contribute an amount of Taka one per member per week to a Children's Welfare Fund used to meet the expenses of the centre high school including the honorarium paid to the part time teachers and purchases of equipment. Further, each member is required to purchase a GB equity share of Tk. 100, which in no way can be treated as savings, but is conceived by the members as savings converted into ownership capital.

#### **4.1.4 Monitoring and Supervision of Loans**

Once a loan is approved, the Branch Manager issues the money along with a loan pass book. The principal, as had already been indicated, is to be repaid in 50 weekly installments. But the interest and the contribution to the emergency fund are collected in the remaining two weeks of the year. The weekly repayments and also the interest payments, the contributions of individual members to the different funds and the amount of loan outstanding are recorded in the pass book by the Bank Workers in the weekly meetings held at centers. The center chief ensures members' attendance in weekly meetings, weekly repayments by them and maintenance of credit and group discipline.

The main responsibility of monitoring lies with the GB Bank Worker, who personally visits several GB centres on a weekly basis while the group chairperson and the centre chief monitor loan utilization on a daily basis. All transactions are conducted openly at centre meetings, which has developed a peer monitoring that works both within groups and at the centre and mitigates entrenchment of vested interests and constellation of power.

It is a regulation of the Grameen Bank that a borrower must invest money within seven days of receipt for the purpose specified in the loan proposal. The procedure for monitoring the loan utilization starts with the group chairperson, who signs a loan utilization form and forwards it to the centre chief. The centre chief passes the form to the Bank Worker, who checks on the utilization of the loan and provides a written description of the type of investment. The Bank Worker then sends the form to the Branch Manager, who is responsible for personally checking 50% of the cases at random. Once satisfied through field visit, the Branch Manager signs the form and forwards it to the Zonal Manager, who is the ultimate authority for supervision of loan utilization.

Grameen Bank monitors its program with the objectives of evaluating the performance of individual staff members, finding what is happening among the staff and the clients, integrating narrative reports of the field staff of different levels with formal and quantified reporting formats and gathering socio-economic data. Data and information generated in the monitoring are used for evaluation of the viability and impact of the credit program. The Grameen Bank uses standard MIS formats incorporating provisions for data on credit operation as well as on staff meetings, training, status of centre meetings, fund position, etc.

#### **4.2 BRAC (Bangladesh Rural Advancement Committee)**

BRAC started in February 1972 as a small committee distributing relief materials to people coming back from India, where they took refuge during the liberation war in Bangladesh. It learnt by working with the people that relief was only a stop gap arrangement and some organized efforts should be there for contributing to a solution to the problems of the poor. BRAC decided to focus on development activities and to work with the community as a whole organizing villages and introducing resource mobilization schemes and education and health programs. The experience of about two years with pilot programs suggested that working in a traditional way did not really help the poor because the resources were being siphoned off by the elite or the ones who already have them.

In 1976 BRAC came up with a target group oriented program of working directly with the poor. Since then it had experimented with different strategies to assist the poor in uplifting their standard of living through services in education and community health and in income generating activities. BRAC provides credit to its beneficiaries, who also receive extension services and advice on four specific areas viz., agricultural practices, livestock and poultry culture, cottage industry and kitchen gardening.

BRAC has defined its target beneficiaries as those households that own less than 0.5 acres of land, own no implements of production and in which the principal worker has had to sell at least 100 days of labor over the past year in order to subsist. Additionally, at least 50 percent of each village organization (Primary operation units of BRAC beneficiaries) must be comprised of people who own no land.

#### **4.2.1 The Credit Program**

The “ Rural Development Program” (RDP) of BRAC is considered to be the core of BRAC activities. The village work of RDP is aimed at building awareness of the poor, providing functional education, organizational and technical training to the villagers and credit to them for self employment and income generating activities.

The credit operation of BRAC is conducted under a special Rural Credit Program (RCP) within the framework of RDP. The objective of the RCP is to improve the quality of life of the target group population organized in groups and in particular, to

- generate employment for both men and women;
- mobilize under and unutilized local resources (e.g., use of derelict ponds, planting trees on roadside embankments and unused government land) ;
- diffusion of appropriate technology and encouragement of more efficient use of existing technology (specially in irrigation, fish culture, horticulture) ; and
- promote better sanitation and health care.

#### **The RCP operates under the following basic principles:**

1. priority is given to schemes/projects with economic and social profitability potential;
2. no collateral in the traditional sense is required;
3. all loans provided are subject to continuous and intensive monitoring and supervision;
4. loans are granted at 20% interest per annum on reducing balance; and



5. loans are provided usually for a year and are repayable in 50 weekly instalments.

#### **4.2.2 The Management**

The field level basic operation and management units of BRAC for RDP are its area offices, which are now converted into branch offices for implementation of the RCP. A branch office covers an average membership of about 6000 in 40-50 villages with about 120 village organizations. This office is headed by an Area Manager / Branch Manager.

The Village Organizations (VOs) are treated as the basic field units of the program beneficiaries. Each VO opens an account with BRAC, which provides for the basis of financial transactions (savings deposit, loan disbursements, loan repayments etc. ) between BRAC and the VOs. Each of the groups in VOs has its own secretary general, whose basic responsibilities include ensuring that the loan proposals are discussed in group meetings, initiating viable loan proposals at monthly VO meetings and assisting VO management and the BRAC Program Organizer in reviewing the proposals. Once approved by the VOs, the loan proposals are sent to the Area Manager of the respective BRAC area office through the Program Organizer. The Area Manager is the approving authority for the loan proposals except in case of large loans, when the approving authority is the Executive Director, who takes decisions upon recommendation by the Regional Coordinator. In case the Area Manager is not satisfied with the viability of any particular loan proposal, he asks the Program Organizer to take it back to the applicant for its reformulation.

Loan is disbursed to the borrower in cash against an undertaking by him. A grassroots level BRAC worker called Gram Sebak<sup>1</sup> visits the VOs,

collects savings and weekly repayments of the loans in their weekly meetings and deposits the money with BRAC's accountant.

#### **4.2. 3 The Savings Component**

A member enrolled in BRAC group and VO and seeking loan is required to mobilize two types of savings- the individual savings at the rate of Tk. 2 per week and savings/insurance fund contribution as deductibles of 10% of the principal of loan amount. Of this 10%, 5% goes to member's individual savings fund, 4% is deposited to group savings fund and 1% is kept in the group insurance fund.

The individual savings earn an interest at the rate of 6% per annum and the savings, along with the interest are refunded to the members when they retire or drop-out from the groups. The group savings also earn interest at the same rate.

The group savings fund with the interest accrued to it constitute a group fund, 50% of which is distributed among the VO members at the end of each year and in accordance with their savings ratio. The rest is used to rehabilitate members in case of calamities or to repay the loan of any member, who dies before the loan is repaid. The group insurance fund is used mainly to provide financial support of a maximum of Tk. 5000 to the family of deceased member so as to minimize the family's financial hardship or the possibility of displacement.

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1. **"Gram Sebak"** means village attendant.

#### **4.2. 4 Monitoring and Supervision**

Until 1988 BRAC relied on its own field of knowledge, extensive program reporting system and studies conducted by the research and evaluation division for being appraised of what was happening in the field. It established a monitoring cell in 1988 with the aim of upgrading BRAC's Management Information System (MIS) for better data on output and financial performance, as well as on the contribution to institution building and social changes. RCP branches have an array of annual and monthly targets on such variables as number of borrowers, amounts of money loaned, savings, number of new VOs, number of members, numbers graduates of functional education courses, number of poultry rearers trained, etc. Performance against targets are published regularly. BRAC publishes quarterly reports which are circulated among the field workers to show how they are doing in comparison to others.

BRAC's monitoring and evaluation system follows a feedback process both upward and downward- the Gram Sebak regularly meets with members and the Program Organizers- with the village groups discussing issues and problems. The head office people also visit village meetings and individual villagers. Formal staff meetings are held weekly and all these upward, downward and lateral communication have the ultimate objective of sharing the experience and problems. BRAC had been using over many years a monitoring system based on financial and activity reporting and MIS providing various types of information compiled from village records at the area office level. The experience and consultation with field workers and villagers helped the monitoring cell in developing thirty indicators covering organizational, social, economic and health aspects, as well as savings and

credit. The RCP is now monitored and evaluated through these indicators. These include such items as number of weekly and monthly VO meetings, attendance rates at these meetings, up to date entries in savings and loan passbooks, records in the group resolution book, regularity in holding elections of the management group, number of sanitary latrines, percentage of eligible children attending school, percentage of eligible children completely immunized, number of divorces and polygamy cases recorded among group members during the last year, number of NFPE graduates enrolled in government primary schools, number of pregnant mothers immunized against tetanus during the last year, number of mothers having a second baby in less than three years and number of VO decisions implemented during last year. The monitoring cell has currently been converted into a full fledged Monitoring Department, which has already deployed a program organizer in each BRAC region to monitor field implementation.

#### **4.3 ASA (Association for Social Advancement)**

ASA started its work in 1978 with the objective of empowerment of the poor through participation in the process of development. Activities of ASA during its first 10/12 years were mainly those of social action in the form of campaign for awareness education and protection of human rights and ASA conducted the work among the rural poor organized in groups. The actions comprised of imparting basic literacy, conscientization and development education through participation of the poor in open discussion forum.

ASA's experience of work for more than a decade suggested that awareness education sessions were not enough for empowerment of the poor in combating for their own rights. ASA has realized that the social uplifting



- create a viable institution at grassroots level.

ASA considers credit as a means of dependency and it aims at setting up self sustaining system for the long-term benefit of the poor. Beneficiaries therefore, are to prove their capacity for undertaking economically feasible activities through various schemes. Targeting women as a special group is justified by the arguments that this liberates them from economic isolation, women's earnings add supplementary income support to their family expenditure, and economic empowerment of the rural women reduces gender discrepancies and gradually upgrades their status.

**Specific characteristics of ASA development model are as follows:**

- the target people are defined as those whose income does not exceed Tk. 1200 per month (high priority is for women members);
- less capital fund is required thanks to an effective revolving mechanism (weekly repayment installments and also the weekly thrift deposit of members are utilized in credit operation);
- regular weekly meetings of group members for creating awareness and consciousness through education and training as well as building up group cohesiveness, group discipline and group strength;
- expenditure is based on income- management cost is returned back within 8/9 months and the pay back period for the capital is 6/7 years;
- the first year's loan size is Tk. 2000 per member and the maximum loan disbursed to a member in a year is Tk. 5000 (average credit per member per year- Tk. 4367);
- the repayment rate is almost 100 %;
- Ratio of grassroots worker and members is 1:300, of workers and supervisor- 4:1, of Unit Officers and Regional Coordinators- 12:1 and of field staff and central staff- 50:1.

#### **4.3.2 The Management**

ASA programs are implemented through decentralized field level unit offices managed by one Unit Officer and 4 Community Organizers. A unit office supervises 60 groups, while each group consists of 20 members (essentially women). In a group there are three group leaders to supervise the total group and the leadership is changed in every two years. Each group has a formal meeting day in a week and in weekly meetings conducted by the Community Organizer, the leaders and the members of the groups discuss issues related to credit and its use and also those on women's right, health, nutrition, awareness about domestic affairs and the environment, etc. They also collectively solve individual and group level problems, if there is any.

Each Community Organizer looks after 15 groups at a given period and the work plan is 3 groups per day for 3 days of the week and 2 per day for the rest 2 days. A community Organizer reports to the Unit Officer every day. The Unit Officer reports to the Regional Coordinator in every week. A Regional Coordinator looks after 10-15 unit offices, though, however, he does not have separate office or staff and moves from one unit to another for routine checking and helping them in crucial decision making. The Regional Coordinator reports to the Central Coordinator bi-monthly (in the field office) and monthly (in the Central Office ) through prescribed formats.

#### **4.3.3 The Credit Delivery System**

ASA believes that sustained economic development cannot be attained without a well structured and dynamic local institution. Groups of the target population, i.e., the disadvantaged rural women, serve as such institution. And ASA trains its staff for continuous monitoring of its program for:

- effective operation of group norms and regulations;
- strong group cohesiveness, group solidarity, mutual relationship and trust among the beneficiaries;
- strong team spirit and participatory leadership;
- equal participation in various social issues for balanced financial strength (through group savings, fund accumulation etc.); and
- negligible rate of drop-outs of group members.

ASA head office uses records from the government to identify neglected areas and, in selecting operation areas for its own credit program, it gives priority to locations having no credit program of other NGOs and having a very low literacy rate. Unit Officer and 4 Community Organizers visit such prospective operation areas and conduct survey of households for identifying those having monthly income of less than Tk. 1200. ASA's Unit Officer then asks the interested members of these households to form groups of 20 from one village for credit. 60 such groups form a village operation unit of ASA.

In order to be eligible for getting a loan under ASA's credit program, the beneficiaries forming the groups need to participate in awareness education. Through participation in the weekly training and discussion sessions, the group members raise their functional knowledge regarding group discipline, group harmony, health care and women's socio-political rights, acquire some vocational skills and knowledge about livelihoods and learn elementary computation techniques, which altogether improve their skills in going with the income generating activities and make them better members of the community they belong to. During the initial two months of weekly meetings the members are to learn how to sign their names. The

education program that develops awareness of the women equips them with the knowledge and skill, and more importantly, with the determination and confidence in resisting exploitation.

All group members of ASA are entitled to get credit within 3-5 months after being enrolled in groups. Credit is sanctioned to ASA group members by the Unit Officer, upon recommendation of the Community Organizers, who help the group members in preparing loan proposals in the process of attending weekly meeting. Credit is repayable within a year in 46 weekly installments and the service charge to be paid is 15% per annum.

#### **4.3.4 The Provision for Savings Mobilization**

Access to credit facilities of ASA can be availed of by a member of the ASA group only if she demonstrates the practice of savings for creating her own capital (members of ASA's credit program are predominantly the poor rural women). The target group proves the borrowing capacity on the basis of savings. The group members start savings by contributing Tk. 5 in each week to demonstrate their commitment to their own future as well as to justify their self-help capacities and advantages of pooling of resources among themselves.

#### **4.3.5 Monitoring and Supervision**

ASA uses monitoring and evaluation for strengthening its management capacity and the monitoring is done through

- a. monthly coordination meetings at the regional level (review of the program activities and development of suggestions and instructions).
- b. monthly coordination meeting at the central level (discussion of field problems and formulation of solutions) ;



- c. half-yearly review meetings (review of implementation of targets, vital policy decisions); and
- d. annual review meetings (overall review of activities, identification of causes of success/ failures, development of plans for next year).

#### **4.4 Proshika (Proshika Manobik Unnayan Kendra)**

Proshika is an acronym made of three bangla words that stand for training, education and action program and the full name of the organization is Proshika Manobik Unnayan Kendra (the human development center). The organization was established in 1976 with the main objective of conducting an extensive and intensive participatory development process through empowerment of the poor.

Proshika believes that people can gradually take control over the spheres of their own lives and livelihood through a participatory human development process and for that the poor needs to be made active participants in their own development with the help of organized interventions and endeavor. The development strategy of Proshika aims at addressing the needs and priorities of the low wage earning landless laborers, small peasants, insecure tenants and the urban poor primarily engaged in the informal sectors. Proshika also extends its assistance to the rural occupational working folks (weavers, fishing communities, petty traders) as its target groups. Besides, organizing poor women into viable groups, raising their consciousness and changing their dreadfully sorry plight under the present patriarchal social system have received major attention in the development process of Proshika.

**The objectives of Proshika are:**

- structural poverty alleviation;
- environmental protection and regeneration;
- improvement in women's status;
- increasing peoples' participation in public institutions; and
- increasing people's capacity to gain and exercise democratic and human rights.

**4.4.1 The Programs**

Proshika operates with a large number of programs and they are

1. Organization building among the poor;
2. Development education;
3. Employment and income generating activities;
4. Disaster preparedness and management;
5. Rural housing;
6. Universal education;
7. Health education and infrastructure building;
8. Urban poor development; and
9. Environmental protection and regeneration.

Proshika has been rendering credit assistance for economic development to its organized groups since inception and the credit program, branded as the employment and income generating activities program, goes in conjunction with organization building among the poor and the development education programs.

Organization building among the poor includes formation of groups at the primary level and creation of broader organizations at different levels. The development education program, also labeled as the training program,

includes human development and practical skills development training and is executed for imparting training to the Proshika staff and the beneficiaries of the different Proshika programs as well as workers and group members of other non-government and government organizations and agencies in both formal and informal settings.

#### **4.4.2 The Credit Operations**

Proshika provides its target group population with credit for employment and income generating activities in various fields such as agriculture, irrigation, forestry, sericulture, beekeeping, cattle and poultry raising, social forestry etc.

Proshika offers loan for income generating activities of members in a group and in order that a group is granted loan, it must be of A or B category. Other criteria of eligibility for Proshika loan are :

- the group must complete 9 months with Proshika from the time of registration;
- the members of the group must hold weekly meetings and the average attendance of the members of the group must be a minimum of 80% in the last 12 meetings preceding the one for discussion of the proposed loan;
- each group member is to save a minimum of Tk. 5 per week;
- the group is to have the experience of undertaking income generating activities by their own savings;
- the group is to belong to an active Village Coordination Committee having the authority over the group in recovering the loan.

The size of the loan depends upon the type of activity to be financed, the number of members of the group taking the loan and the availability of matching fund. Loan is sanctioned only against specific project profile with itemized budget. The matching fund requirement is 10% in case of the first loan, 20% in case of the 2<sup>nd</sup> loan and 30% in case of the 3<sup>rd</sup> and subsequent loans. The required matching fund should be in cash at hand or available in the bank account of the group on the date of loan application. The group must deposit the matching amount to the Area Accountant of Proshika, who in turn, will fund the same at the time of loan disbursement by a separate receipt.

The duration of the loan varies depending upon the type of the activities and is determined at the time of sanctioning with a record in an attached schedule. However, in exceptional cases, the Principal Program Coordinator, the Deputy Director or the Director may extend the period of loan upon recommendation by the Economic Development Worker (EDW) and the Area Development Coordinator (ADC) of Proshika. Second and subsequent loans are given to selected groups provided that they have proven record of making timely repayments and the group does not have outstanding loan (except in some medium term financing cases). If some members of the group are not covered by the first loan, they are to be covered by the second loan. Further, if some of the members of the group want to undertake one type of activity and the others seek loan for other activities, multipurpose loans may be given to that group in addition to their main loan.

The repayment instalments vary within the loan period depending on the nature of activities and a repayment schedule is attached to the loan agreement. The service charge for all credit for employment and income



generation activities is 18% per annum and is calculated on a reducing balance method.

#### **4.4.3 The Credit Delivery System**

Proshika initially selects the operation area with the help of Area Development Coordinators (ADCs) and using official statistics from the head office. It then identifies 4 categories of landless poor of the area: Grade A- very active people with all round activities, Grade B- satisfactory active people with all round activities, Grade C- poor/inactive people and Grade D- dysfunctional people. Based on the rationale and a set of criteria, the Proshika ADC determines from A and B grade people the individuals to be eligible for loan. The ADC however, initially explains the purpose and rules of Proshika to the clients and asks the interested eligible persons to form groups of like- minded ones and helps them in forming these groups.

Group members openly discuss a loan idea in their weekly meeting and once they come to a conclusion, they formulate a resolution accepting the responsibility for the loan, its terms and conditions and implementation of the activities for which it is asked. This resolution is to be unanimous and signed by all members of the group. The Economic Development Worker (EDW) attends the meeting, ensures that the borrowing group meets the eligibility criteria and the credit is appropriate to the needs and conforms to the credit policy of Proshika. He also assists the group in filling up the loan application form. The loan application form contains the following:

- a. biography of the borrowing group (name of the group, address, date of formation, number of members, etc.);
- b. monthly cash flow projections of the group as a whole covering the term of the loan;
- c. a summary fund statement of the group;

- d. itemized expenditure budget of the activity;
- e. sources of fund;
- f. projected income from the activity;
- g. sources of repayment;
- h. feasibility study;
- i. statement of previous loan repayment with Proshika;
- j. particulars of current request like rate of service charge, term and repayment schedule; and
- k. resolution of the group members.

The loan application form is then forwarded to the Village Coordination Committee, which reviews it in its meeting and can approve it if two thirds of the members support a resolution in favor of doing the same. The form along with the resolution is sent back to the EDW, who, at this stage, recommends it to the ADC, who approves the loan if he is satisfied with the proposal in respect of loan size, viability and profitability of the activity and the quality of the group.

In case the loan amount asked in the proposal exceeds the authorizations limit of the ADC, he forwards the proposal to the Zonal Coordinator, who approves or disapproves it or , in case the loan amount is beyond his approval limit, sends it further to the Central Coordinator. In the same way, the loan application form may go above the line to the Deputy Director, Director concerned or to the Executive Director.

All Proshika loans are secured by a loan agreement on a non-judicial stamp between Proshika and the borrowing group. The approved loan application along with all documents is sent to the Area Accountant for payment. The Area Accountant verifies the credit documents and pays

checks of loan to the authorized members of the borrowing group in presence of the EDW. Decision about loan disbursement is to be made by the Proshika management within 15 days of receiving a loan application by the EDW.

For every loan there is a monthly installment for repayment. One fourth of monthly installment is to be deposited weekly by individual borrowing members to the group cashier, who, upon collection of the repayments for a month, deposits the money to the Area Accountant through a group member nominated by the Village Coordination Committee. The monthly repayment date is normally prefixed between 15<sup>th</sup> and 20<sup>th</sup> of each English calendar month.

#### **4.4.4 The Savings Component**

Every member of Proshika group is to save a minimum of Tk. 5 per week prior to become eligible for a Proshika loan. Each of the members maintains a savings passbook and each group has a joint savings account where the individual savings are deposited. Group members themselves operate this account and also decide what employment and income generating activities they can manageably undertake. Through this, the group members are expected to develop savings habit and group cohesion and learn to bear financial responsibility.

Proshika has a unique system of refunding 10% of its service charge on loans extended. The service charge for Proshika general loans for income generating activities is 18% and the refund provision, which is, in a sense, a form of anticipated savings, has been made for only those, who are regular in repayment.

#### **4.4.5 Monitoring and Supervision**

No later than 15 days after delivering the loan, the Economic Development Worker (EDW) visits the borrowing group in order to verify use of the loan and the group's savings performances and advises the members, if necessary.

The groups maintain resolution books of weekly meetings, books of accounts and individual savings passbooks all updated on weekly basis. The EDW maintains a loan register for all groups under supervision and makes monthly visits to verify the group fund with books of accounts and individual passbooks to ensure that the weekly and monthly repayments are in place. The Village Coordination Committee in its monthly meetings reviews the up-to-date portfolio report submitted by the EDW in the beginning of each month, assesses the repayment performance of each borrowing group and applies social pressure to collect over dues, if any.



## CHAPTER-5

### COMPARING THE MICRO-CREDIT PROGRAMS OF LEADING NGOs / ORGANIZATIONS

#### 5.1 Nature of the Organizations

The NGOs/ Organizations under review differ from one another in both form and institutional set up. Grameen Bank is a quasi-governmental agency, and BRAC, ASA, and Proshika are NGOs.

All organizations offer collateral free loans to the rural poor and two of them (GB and BRAC), specially to the poor women. The goal of all these organizations is the same: to improve the quality of life of the rural poor. The organizations have another striking similarity: despite the fact that they all aim at generation of local resources for development, they themselves depend on funding from outside- the government or foreign donor agencies.

The organizations operate on a commercial basis, rather than on a philanthropic or charity basis as was the case with programs for the poor in the past, when various agencies extended relief type of services in situations of natural disaster or calamities. This reorientation is a result of the widespread appeals for “commercial” approach towards financing development. The commercial approach towards financing poverty alleviation seems to have its origin also in the concerns of donor countries and agencies about the negative effects of making the people dependent upon subsidies or , in the overall policy shift in the international environment towards business and enterprise motives.

The government programs expand faster in terms of geographical average. The GB and BRAC also expanded very fast thanks to the facts that GB had been in the public sector for a fairly long period and even now it separates as a quasi government agency and BRAC, although itself is a

NGO, could manage to develop a solid partnership with the government in implementing a number of public sector poverty alleviation and social development projects in the rural areas. NGOs differ with the government agencies in terms of intensity of operations i.e., NGOs cover relatively smaller geographical territories but provide more rigorous and wider variety of services.

The management structure of the organizations reviewed are more or less similar, but the operation areas under supervision units for GB and BRAC are more scattered than those under similar units of ASA and Proshika. The Area and Zonal Offices of GB and BRAC enjoy a fairly high degree of authority and power in program implementation as well as in its planning. Field units of NGOs like ASA and Proshika have only a restricted autonomy.

## **5.2 The Objectives and Strategies**

All the organizations, as indicated above, aim at poverty alleviation of the rural poor and the objectives of their credit and social development program operation are, in general, to

- a. finance investment for creation of opportunities for self employment and income generating activities;
- b. eliminate dependence of the rural poor on moneylenders, who traditionally exploit the poor through providing credit under exorbitant interest rates;
- c. form socio economic groups of the rural poor for enabling them to develop their own resources; and
- d. make the poor more honoured and useful members of the community.

The strategies in achieving above objectives have remarkable

similarities and comprise of -

- (a) making the target groups aware of their own problems;
- (b) helping them in uniting in homogeneous groups and
- (c) providing them with resources, particularly in the form of loan.

The strategies also differ because of a lack of comprehensive and common understanding about the ways to “enhance the quality of life of the rural poor”. NGOs are often learning organizations and their package of services to the target group and the delivery mechanisms are more sensitive to the needs of the poor and time and demonstrate better responses to the changes in work environment. The government programs are rigid and continue operating in the field under fixed rules and therefore, lack flexibility in systems and procedures. Despite the fact that the NGOs have fairly high flexibility and adaptability, they ultimately do not reach a common strategy because of the difference in visions. ASA’s ultimate objective is to “empower the powerless”, BRAC has a mission of “alleviating poverty through sustainable development”, Proshika intends to “create a just society” and the Grameen Bank is “to help the rural poor, particularly the women”.

The operational strategy and nature of services provided show that the differences in objective and strategy are more in rhetoric than in substance and still, the rhetoric influence the thinking and work pattern of the planner; and field staff. This explains to a large extent, the differences in targeting and functional parameters of the micro-credit schemes for the rural poor in Bangladesh. ASA and Proshika pursue social and political empowerment of the poor and their stress was not on the credit until the recent past. GB emphasized on credit from its inception and BRAC became a borrower of GB in stressing on credit fairly long ago. GB and BRAC also aim at social and political empowerment of the poor.

### 5.3 Operation Area Identification

Operation areas of the micro-credit organizations are chosen by the higher level (most frequently, the top level) executives. In NGOs the lower level staff are instructed to look for 'poverty pockets', which may be considered as ideal according to the strategic and functional goals and objectives.

Not all organizations have well defined set of criteria and specially formulated procedure for selection of operation area. Too often, it is found that any rural place is considered suitable by them for executing the credit programs and the choice is made more on the basis of subjective judgements than on formal, empirical data about the socio-economic situation of the areas. Also in many cases, establishing a branch of credit scheme in a rural location depends upon factors like support of the local community leaders, availability of office and living accommodation, existence of the minimum transportation and communication facilities and a relative development of the locality in particular types of craftsmanship and skills.

Surprisingly, none of the organizations expand their operation areas by the principle of 'surrounding the existing zones', which would have been much easier to manage and less costly and would ensure higher effectiveness. The expansion decisions for the government agencies are often political and the government, by expanding the program to new areas, makes a territorial or regional 'distribution of efforts' in poverty alleviation. Probably, the same intention works in NGOs when they expand their operation areas almost in the same way the government agencies do so, i.e., pick up different areas simultaneously in different geographical locations instead of expanding in centrifugal directions.



Some of the organizations, which operate with the motives of mobilizing the poor in a campaign against uneven distribution of land and wealth in rural areas, prefer providing credit and other services in areas where there already exist strong resentments of the landless against the social system and a peasant movement in any form. This is particularly characteristic of ASA and Proshika. BRAC chooses some operation areas, where there exist certain craftsman groups or where materials are available for developing cottage industries. Grameen Bank has also started following the practice, specially by introducing its credit program for garments making from the 'Grameen Check'.

## **5.2 The Target Group**

The target groups in case of all the organizations reviewed are identified mainly on the basis of marginal or no land ownership and owning no means production, the status of unemployed or underemployed and a low annual income. All agencies also require that the beneficiaries are the permanent residents of the area where they operate. Any member of a family, which do not own more than 0.5 acres of cultivable land is eligible to become a member of GB, BRAC, ASA and Proshika.

The eligibility criteria for Proshika and BRAC membership include the provision that anybody who sells at least 100 days of his /her labor in a year in order to subsist can be a beneficiary. BRAC and Proshika have preference also in working among the landless occupational groups like the fishermen, small traders, weavers etc. GB, ASA and BRAC focus mainly on women.

None of the organizations conduct credit programs for small and marginal farmers, who are becoming landless at a very fast rate. Also the

extreme poor, who lost all confidence in life and do not find ways to associate with others in the community for a fair living also remain beyond coverage of the services offered by the organizations reviewed.

That the organizations do not have identical targeting policy and most of them keep small landowners, the non professional landless and the extreme poor beyond coverage, have significant bearing on the ultimate impact. And it is particularly because of this, no conclusive judgement can be made as to whether these programs really contribute to alleviating rural poverty.

The procedure of beneficiary selection is de facto the same for all the organizations. It starts with informal discussion meetings of the program field staff with the rural household members. The basic objectives of these meetings are to explain the goals, rules and procedures of the organizations, to develop a confidence of the prospective beneficiaries and to identify the individuals/ households, which can be enrolled as the members or borrowers of the programs. The selection is done on the basis of data on household/ family and the membership eligibility criteria for the organization concerned.

### **5.5 Beneficiary Motivation and Organization**

Program beneficiaries are organized in small, 'homogeneous' self selected groups of like minded individuals. Women members form separate groups in most cases. Groups have their own elected Chairperson. Groups are federated into Centers or Village Organizations (VOs), which elect a Chief and a Secretary (in some cases, the Centres are formed first and the groups are then curved out of it). Members after forming the Centres, fix the place and a day and time for the weekly centre meetings.

All organizations form groups with members having similar socio-economic background and enjoying mutual trust. Group size is not the same for all organizations, For example, group size for GB is fixed at 5, but is varied for , ASA and Proshika (15-20) and BRAC (5-7).

The program members require to attend the weekly meetings, where the program field staff also conduct some livelihood training sessions. The meetings of the initial period are supposed to be rigorous and in these meetings the project field staff judge the members' level of understanding of the principles, rules and systems, provide them the training in functional education (specially the signing of name as well as numeric and some vocational skills), motivate them to participate in community development activities and develop their savings habit. There is however, no official guideline for group motivation and training in any of the organizations reviewed and the field staff usually explore their own judgement, preferences and skill in the work, which vary among the organizations and even among the field units of the same organization or agency.

The most important functions conducted by the field staff in the centres after the preparatory stage are providing assistance to the members in formulating loan proposals, monitoring loan use and collecting the recovery instalments.

The strategy of working with groups and centres demonstrated itself to be successful at least, because through groups and centres, the program members are better organized and monitored and the loan recovery could be made much easier. In a sense, these are solid grassroots outreach units for all operational purposes. But there is a strong doubt, whether the groups and centres could contribute to developing a solidarity that promotes the spirit of mutual help, as well as of peer pressure, an environment of credit and social

discipline and a community, where people avoid conflicts and live in better comforts than before.

### **5.6 Loan Receiving Conditions for the Members**

Members of NGOs can receive loans only after they undergo motivation sessions and some training. Other conditions for receiving loans from NGOs are the regularity in attendance in weekly meetings, in making individual savings deposits, maintaining group discipline and a sense of responsibility and mutual cooperation.

Some NGOs do not provide loans to all its members, but in GB membership automatically ensures the status of a borrower. GB however, does not provide loans to all its members simultaneously at the same time. Instead, it first extends loans to two members of a group, two other members receive loans only if the borrowers of first batch perform satisfactorily during the probation period (2-4 weeks) and the Group Chairman is the last person to receive loans in this process. ASA and Proshika have been observed to be more serious in fathoming future seriousness of the members in repaying loans by observing their interest and the behavioural pattern before the loans are actually extended. BRAC waits until the savings of the VO members reach an amount equivalent to 10% of the loan to be sanctioned.

It might appear that the mandatory savings conditionality discourages the poor to become credit seekers. But in practice, this does not happen. Many members even go further, and create informal savings societies of their own and if performance in savings generation is treated as a criterion for judging member behaviour, these members are definitely better than the others.

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### **5.7 Loan Size and Terms**

The policies of the organizations reviewed on loan size, loan duration and service/ interest charges are different and often, to a wide extent. These differences have their origin in the types of the loans and purposes for which they are provided. BRAC offers three types of loans: (a) short-term loans repayable within a year, (b) medium term loans repayable within three years, and (c) long term loans, duration of which depends on the schemes. For ASA and Proshika, the loan duration ranges from 6 months to 5 years. General loans of GB and BRAC are given for one year. Longer term loans are given by GB and BRAC for construction of houses or for business projects in livestock, cold storage facilities, plantation, cottage industries etc.

About 90% of the loan portfolio of the organizations reviewed are general loans for individual and the maximum size of such loans of ASA, and GB is Tk. 5000 Proshika and BRAC do not have specific loan size ceilings and their loans usually vary from Tk. 500 to 8000 per person. BRAC has a tendency of experimenting with much bigger size loans and has a record of providing a loan of Tk. 1 million. Individual borrowers may receive repeat loans, if they successfully use the first loan and maintain the repayment schedules.

Member of GB, BRAC, ASA and Proshika can go on taking loans for 8-12 years. The loan size for the first year term is usually a bit lower and it gradually raises with years to go. None of these organizations exercises rescheduling of loans in case of overdue or would be defaults.

The service charge for ASA and Proshika loans ranges from 10 to 18%. For BRAC and GB the interest rate is 20-21%, which includes interest and service charge. Most of the organizations retain a non interest bearing, refundable 5-10% deductions from the principal amount of loans in the group savings funds. But the borrowers pay interest and service charge on the full amount of loan sanctioned to them. Collection of interest/ service charge on sums which are not utilized is definitely unjust. Further, these deductions, though formally termed as group savings, are actually safeguards against default and the practice therefor, indicates that the organizations so far have not developed a trust on the rural poor.

The micro-credit schemes in Bangladesh are often criticized on the ground that the borrowers are to pay fairly high interest rates as compared to conventional formal lending institutions and also sacrifice use of a part of their loans. But the borrowers of no such organization have been found to express serious resentment on similar arguments. The possible reasons for this include a fairly low transaction cost, effective assistance by the program field staff in processing of loan documents, easy and transparent credit delivery system and above all, the scope of getting loans without physical collateral, which is impossible at the present set up to get from traditional credit institutions.

### **5.8 Loan Sanctioning and Disbursement**

The loan processing is broadly the same for all micro-credit organizations. To receive a loan, a group member formulates a loan proposal with the help of the fellow group members and the program field staff. The proposal is then placed for approval by the center/ VO and once approve, the loan proposal, compiled in a prescribed form, is submitted, along with some other documents, to the Branch or local unit office of the organization.

The documents that require to be submitted along with the loan application forms vary from organization to organization. The loan applications are reviewed by several higher authorities. The final authority for different size loans is different: in case of GB the Area Office gives final approval for most of the loans. But for other organizations, the applications may require approval by the higher, even the highest executive authorities.

Loans sanctioned to individuals are disbursed in Area Offices of GB, Proshika, ASA and BRAC. Disbursements are made by Area Managers in presence of the program field staff and the management of the borrower groups. The loan money is given in cheques encashable in Branch Office of GB or in local branches of the designated servicing banks.

### **5.9 Loan Use Supervision and Monitoring**

Each of the organizations has its own mechanism of loan use supervision and monitoring the activities of borrower members and groups. The underlying monitoring principle of the organizations however, are the same: to collect data on the performance and evaluate. GB and BRAC appear to be more effective in supervision and monitoring because they do so at two levels: first the borrower is constantly and closely monitored by the program field staff and secondly, the group members monitor each other to check whether the loan is properly utilized.

A participatory method has been developed by BRAC, which uses a set of 30 indicators covering organizational and credit delivery activities as well as savings and health and social aspects. Each area is given a grade and the results of grading are discussed at group level for actions to improve the situation where required. Proshika and ASA monitors on the basis of record books, where records are made by the program field staff and which are passed on to higher levels for evaluation and decisions on measures to be

taken. The follow up and feedback systems are relatively more intensive in NGOs, while in government organizations, though there exist special MIS formats and monitoring instructions, these systems do not work well. The reasons why is so are probably the following: the decision making in government machinery is always cumbersome and lengthier; the delegation of authority is poor and the field staff often hesitate in taking personal initiatives; the incentive system is weak; and the issue of accountability is often ignored and shifting of responsibility is fairly easy.

#### **5.10 Loan Recovery and Default Management**

Borrowers of credit institutions may be divided into two broad groups: those who are regular in repayments and those who are not. Borrowers, who are irregular in repayments, may further be subdivided into three types:

- (a) those who have no intention from the very outset to repay the loans as they anticipate that foreclosure or making them repay will be too troublesome and costly for the lending institution and therefore, 'wait' for a period in the expectation of getting the loans written off;
- (b) those who become reluctant in repaying because of insufficient legal or social pressures and a lack of incentives to repay; and
- (c) those who fail to repay because of the 'honest mistakes' in use of loans i.e., making investments, which, for reasons not depending upon the borrower, turn out unproductive.

The micro-credit schemes now operating in Bangladesh, particularly in the non-government sectors, have gained experience as learning organizations and are careful in preventing borrowers from being defaulters of any of the above type.



Most of the organizations use a policy of recovering loans in weekly instalments. there are however, differences in timing of repayment. For example, repayments of ASA loans start after 5-6 weeks of the disbursement, those of GB start after 2-3 weeks and for BRAC, the repayments start immediately after the loan is disbursed. All organizations collect interest in the last 2-3 instalments of repayments which make the repayment amounts higher in this period.

In case of GB, the repayments are collected by the program field staff in weekly meetings, while in case of ASA, Proshika and BRAC, a designated member of the centre /VO collects the repayments on weekly basis, but deposits them to the Branch /Area Office at the end of every month.

For GB and for the NGOs, the credibility of groups and centres /VOs as a whole and the prospect of future loan to their individual members are in jeopardy if one member breaks the discipline and defaults on loan repayment. These factors, together with the possibility of forfeiture of the contributions to insurance and individual and group savings fund, ensure a very high loan recovery rate of the programs.

Besides peer pressure and the placing of field staff's job at stake, the secret of high recovery rate in group based micro-credit schemes lies probably in continuous repayment collections by the program field staff as the repayments fall due. Experience suggests that it is extremely difficult to retrieve loans, once they are in arrears for more than two terms.

The BRAC way of handling default is penalizing-the borrower's asset may be sold out to recover the outstanding loan. Proshika has a provision of penalty interest for the overdue. The overdue however, is observed to remain at a very low level, because whenever some member of the group faces difficulty in making repayments or becomes a defaulter at will, he is

extended a temporary 'support' in order to keep the records clean. Most often such borrowers are pushed out of the groups at the end of the current loan period and thus are automatically refused fresh loan for a new term.

So, it can be said that despite limitations in the credit delivery systems, the micro-credit schemes in Bangladesh appear to quite successfully change the situation.

**Table –2 :A Comparative Statement of the Micro-credit Programs**

**1. Nature of Organization**

GB	:	Quasi-government Organization
BRAC:		NGO
ASA	:	NGO
Proshika	:	NGO

**2. Goal**

Common to all	:	to provide credit for self employment in income generating activities; in addition
GB	:	to offer banking service to the poor, to allow the poor to exploit their own labour and capacity
BRAC	:	to empower the poor
ASA	:	to empower the poor
Proshika	:	to empower the poor

Source: Field Study

**3. Target Beneficiary**

- GB : Member of a family having less than 0.5 acre of cultivable land; women preferred.
- BRAC : Individuals selling at least 100 days of labour a year to subsist; land less occupational groups, poor women.
- ASA : Individuals selling at least 100 days of labour a year to subsist; member of a family having less than 0.5 acre of land; women preferred.
- Proshika : Same as ASA

**4. Group Size (Persons)**

- GB : 5
- BRAC : 5-7
- ASA : 15-20
- Proshika : 15-20

**5. Number of Groups Forming Centers/ VOs**

- GB : 5-8
- BRAC : 10-11
- ASA : 60
- Proshika : 6-10

**6. Minimum Period of Preloan Training**

- GB : 7 weeks
- BRAC : 6 months
- ASA : 3 weeks
- Proshika : 45 days

**7. Rate of Mandatory Individual Savings (Taka Per person per week)**

GB	:	2
BRAC	:	5
ASA	:	5
Proshika	:	5

**8. Obligatory Savings in Group Fund ( as % of loan sanctioned)**

GB	:	5%
BRAC	:	10%
ASA	:	15%
Proshika	:	10%

**9. Deduction as premium for emergency /risk insurance fund**

GB	:	Tk. 5 per thousand Taka of loan, if loan amount exceeds Tk. 1000
BRAC	:	1% of the loan sanctioned.
ASA	:	1% of the loan sanctioned.
Proshika	:	Tk. 5 per week

**10. Loan Processing Chain**

GB	:	Bank worker- BM- AM- ZM
BRAC	:	Gram Sebak-PO- BM- RM- Program Coordinator
ASA	:	Community Organizer- Unit Officer- Regional Coordinator
Proshika	:	EDW-ADC-Village Coordination Committee- Area Coordinator



**11. Nominal Interest Rates for General Loans**

GB	:	20%
BRAC	:	21%
ASA	:	18%
Proshika	:	18%

**12. Loan Amount (Per member per year)**

GB	:	Tk. 3000-5000
BRAC	:	Tk. 500-8000
ASA	:	Tk. 3000-5000
Proshika	:	Tk. 500-8000

**13. Mandatory Field Visits by Program Field Staff for Loan Use Monitoring**

GB	:	Weekly
BRAC	:	Weekly
ASA	:	Monthly
Proshika	:	Bimonthly

**14. Loan Recovery Rate**

GB	:	98%
BRAC	:	98%
ASA	:	99%
Proshika	:	98%

Source: Field Study

## CHAPTER –6

### CASE STUDIES : A Closer Look

#### Case Studies

The following NGOs have been picked up as case studies for a closer look. At the same time, their micro-credit operations follow features of NGOs. These NGOs are working in Khulna Division and Rajshahi Division.

#### 6.1 Khulna Division

##### 6.1.1: PROSHIKA, MANOBIK UNNAYAN KENDRA, Khulna Sadar ADC

Proshika, Manobik Unnayan Kendra, Khulna Sadar ADC established in 1995. Its cumulative number of borrowers is 14755. This NGO disbursed total Tk. 3,99,75,500/- in the year 2002-2003 as micro-credit for income generation and loan recovery rate is 94 per cent.

**Table – 3: Sector-wise Micro-Credit Disbursed by Proshika,  
Manobik Unnayan Kendra, Khulna Sadar ADC**

Sl. No.	Sector	No. of group members	Amount disbursed (2002-2003)
1.	Agricultural	100	6,33,000
2.	Livestock	2000	85,04,000
3.	Small business	1940	1,83,54,500
4.	Fisheries	1150	42,62,000
5.	Rickshaw/Van	100	4,24,000
6.	Home Steed Gardening	100	1,73,000
7.	Social Forestry	200	4,68,000
8.	Others	500	38,37,000
9.	Ecological Agriculture	307	1,15,000
10.	Seed	100	32,05,000
	Total	7227	3,99,75,500

Source: Field Study

### 6.1. 2: SHARE-Bangladesh

SHARE-Bangladesh established in 1997. It covers one District (Part) and cumulative number of borrowers is 108. The range of loan amount is Taka 2,000-4,000/-. This NGO disbursed total Tk. 2,14,000/- in the year 2002-2003 as micro-credit for income generation and loan recovery rate is 93 per cent.

**Table – 4: Sector-wise micro-credit disbursed by SHARE-Bangladesh.**

Sl. No.	Sector	No. of group members	Amount disbursed (2002-2003)
1.	<i>Small business</i>	67	1,34,000
2.	Vegetable cultivation	26	54,000
3.	Shrimp culture	15	26,000
Total		108	2,14,000

Source: Field Study

### 6.1.3 : BRAC, Khulna

BRAC, Khulna established in 1972. It covers one District and cumulative number of borrowers is 60,000. The range of loan amount is Taka 5,000-20,000/-. This NGO disbursed total Tk 30,04,02,000/- in the year 2002-2003 as micro-credit for income generation and loan recovery rate is 98 per cent.

**Table – 5: Sector-wise micro-credit disbursed by BRAC, Khulna**

Sl. No.	Sector	No. of group members	Amount disbursed (2002- 2003)
1.	<i>Small Enterprise</i>	29382	16,15,35,000
2.	Agriculture	12560	7,25,30,000
3.	Aqua culture	8773	3,65,45,000
4.	Poultry and Livestock	5782	2,12,16,000
5.	Goat rearing	3658	85,76,000
Total		60155	30,04,02,000

Source: Field Study



#### 6.1. 4: PRODIPAN

PRODIPAN established in 1984. It covers 17 Upazilas of 7 Districts and cumulative number of borrowers is 18576. The range of loan amount is Taka 5,000-12,000/-. This NGO disbursed total Tk 2,90,35,000/- in the year 2002-2003 as micro-credit for income generation and loan recovery rate is 97 per cent.

**Table – 6: Sector-wise Micro-Credit Disbursed by PRODIPAN**

Sl. No.	Sector	No. of group members	Amount disbursed (2002-2003)
1.	Fish culture	2265	1,04,53,000
2.	Cow rearing	189	8,72,000
3.	Goat rearing	63	2,90,000
4.	Small Trading	3147	1,45,17,000
5.	Rickshaw/Van	252	11,62,000
6.	Net making	189	8,75,000
7.	Paddy Cultivation	63	2,85,000
8.	Poultry rearing	126	5,81,000
Total		6294	2,90,35,000

Source: Field Study

### 6.1. 5: CONCERN

CONCERN established in 1978. It covers one District (Part) and cumulative number of borrowers is 3681. The range of loan amount is Taka 2,000-12,000/-. This NGO disbursed total Tk 1,25,05,000/- in the year 2002-2003 as micro-credit for income generation and loan recovery rate is 99 per cent.

**Table – 7: Setor-wise Micro-Credit Disbursed by CONCERN**

Sl. No.	Sector	No. of group members	Amount disbursed (2002-2003)
1.	Rickshaw	205	8,40,000
2.	Poultry	30	3,60,000
3.	Grocery Shop	149	15,00,000
4.	House Making for earning rent	85	8,50,000
5.	Small Business	1070	77,60,000
6.	Cow and Goat rearing	45	4,95,000
7.	Sewing	25	2,00,000
8.	Others	1601	5,00,000
Total		3210	1,25,05,000

Source: Field Study

**6.1. 6: ADAMS (Association for Development Activity of Manifold Social Work)**

ADAMS established in 1994. It covers two Districts (Part) and cumulative number of borrowers is 4984. This NGO disbursed total Tk 1,65,48,000/- in the year 2002-2003 as micro-credit for income generation and loan recovery rate is 62.54 per cent.

**Table – 8: Sector-wise Micro-Credit Disbursed by ADAMS.**

Sl. No.	Sector	No. of group members	Amount disbursed (2002-2003)
1.	Fish and Shrimp culture	326	25,80,000
2.	Cow and Goat rearing	206	10,60,000
3.	Van Purchase	31	1,61,000
4.	Small Trading	755	45,30,000
5.	Poultry	109	5,51,000
6.	Purchasing Boat	32	1,63,000
7.	Kitchen Gardening	64	3,14,000
8.	Bamboo and Cane Work	79	3,88,000
9.	Sewing Machine	89	4,56,000
10.	Fishing met	96	4,77,000
11.	Vegetable Vending	260	12,10,000
12.	Clothes Hawing	251	12,28,000
13.	Firewood Selling	107	5,43,000
14.	Grocery Shop	222	11,90,000
15.	Chicken Hawing	110	5,29,000
16.	Rickshaw	157	7,71,000
17.	Miscellaneous	83	3,97,000
Total		2977	1,65,48,000

Source: Field Study

### 6.1. 7: UJON

UJON established in 1994. It covers two Districts (Part) and cumulative number of borrowers is 1210. The range of loan amount is Taka 2,000-7,000/-. This NGO disbursed total Tk 85,88,000/- in the year 2003 as micro-credit for income generation and loan recovery rate is 96.02 per cent.

**Table – 9: Sector-wise Micro-Credit Disbursed by UJON**

Sl. No.	Sector	No. of group members	Amount disbursed (2003)
1.	Iron Scrap	28	1,49,000
2.	Sari Vending	23	76,000
3.	Sewing Machine	6	19,000
4.	Fish Cultivation	3	15,000
5.	Van	35	1,31,000
6.	Rickshaw	24	87,000
7.	Grocery Shop	70	2,63,000
8.	Poultry Farming	4	16,000
9.	Others	433	18,32,00
Total		626	25,88,000

Source: Field Study



### 6.1. 8: BRIDGE-Bangladesh Rural Integrated Development for Grub-Street Economy

BRIDGE established in 1992. It covers 13 Upazilas of 3 Districts and cumulative number of borrowers is 16380. The loan amount is Taka 4,000/-. This NGO disbursed total Tk. 3,62,58,000/- in the year 2002-2003 as micro-credit for income generation and loan recovery rate is 97.59 per cent.

**Table – 10: Sector-wise Micro-Credit Disbursed  
by BRIDGE**

Sl. No.	Sector	No. of group members	Amount disbursed (2002-2003)
1.	Agriculture	1230	53,99,000
2.	Fish Culture	2300	95,00,000
3.	Food Procession	300	12,00,000
4.	Small Business	2000	89,99,000
5.	Van	35	1,31,000
6.	Cottage Industries	200	8,00,000
7.	Transport	1000	40,00,000
8.	Health	90	3,60,000
9.	Poultry & Livestock	1200	60,00,000
Total		8320	3,62,58,000

Source: Field Study

### 6.1. 9: Bonochaya Mohila Kallayan Samity (BMKS)

Bonochaya Mohila Kallayan Samity established in 1979. Its cumulative number of borrowers is 346. The range of loan amount is Taka 2,000-5,000/-. This NGO disbursed total Tk. 12,79,000/- in the year 2002-2003 as micro-credit for income generation and loan recovery rate is 96 per cent.

**Table – 11: Sector-wise Micro-Credit Disbursement by Bonochaya Mohila Kallayan Samity**

Sl. No.	Sector	No. of group members	Amount disbursed (2002-2003)
1.	Cow and Goat rearing	28	85,000
2.	Poultry	19	71,000
3.	Grocery Shop	226	8,34,000
4.	Tailoring	57	1,35,000
5.	Fish Cultivation	31	1,10,000
6.	Cottage Industries	13	44,000
Total		374	12,79,000

Source: Field Study

### 6.1. 10: Rural Reconstruction Foundation (R R F)

Rural Reconstruction Foundation established in 1982. It covers one District (Part) and cumulative number of borrowers is 1350. The range of loan amount is Taka 1,000-30,000/-. This NGO disbursed total Tk 3,72,000/- in the year 2002-2003 as micro-credit for income generation and loan recovery rate is 100 per cent.

**Table – 12: Sector-wise Micro-Credit Disbursed by Rural Reconstruction Foundation**

Sl. No.	Sector	No. of group members	Amount disbursed (2002-2003)
1.	Cow/Goat rearing	2	8,000
2.	Rickshaw/Van	7	28,000
3.	Grocery Shop	9	36,000
4.	Small Business	25	92,000
5.	Poultry	5	16,000
6.	Cottage Industries	7	28,000
7.	Fish Cultivation	10	38,000
8.	Tailoring	14	56,000
9.	Agriculture	2	8,000
10.	Others	17	62,000
Total		98	3,72,000

Source: Field Study

### 6.1. 11: Nabarun Shangsad

Nabarun Shangsad established in 1965. It covers one Districts (Part) and cumulative number of borrowers is 2207. The range of loan amount is Taka 3,000-7,000/- This NGO disbursed total Tk. 12,11,000/- in the year 2003 as micro-credit for income generation and loan recovery rate is 93.74 per cent.

**Table – 13: Sector-wise Micro-Credit Disbursed by Nabarun Shangsad**

Sl. No.	Sector	No. of group members	Amount disbursed 2003
1.	Agriculture	101	68,000
2.	Fish Cultivation	315	56,000
3.	Food Processing	172	80,000
4.	Small Business	834	5,43,000
5.	Cottage industries	31	16,000
6.	Transport	126	69,000
7.	Housing	68	1,23,000
8.	Health	30	57,000
9.	Poultry/Livestock	330	15,000
10.	Miscellaneous	110	1,84,000
Total		2117	12,11,000

Source: Field Study



**6.1. 12: BANOPHUL**

BANOPHUL established in 1979. It covers one District (Part) and cumulative number of borrowers is 2743. First loan amount is Taka 2,000/- and after that loan Taka 2,000/- plus. This NGO disbursed total Tk 18,38,000/- in the year 2002-2003 as micro-credit for income generation and loan recovery rate is 92 per cent.

**Table – 14: Sector-wise Micro-Credit Disbursed by BANOPHUL**

Sl. No.	Sector	No. of group members	Amount disbursed (2002-2003)
1.	Cloth Business	65	1,70,000
2.	Wood Business	148	4,94,000
3.	Cow & Goat Rearing	50	1,38,000
4.	Poultry	28	1,06,000
5.	Small Business	87	2,92,000
6.	Housing	32	1,05,000
7.	Fish Cultivation	42	1,23,000
8.	Land Registration	10	36,000
9.	Health	8	14,000
10.	Grocery Shop	32	89,000
11.	Sewing Machine	36	65,000
10.	Hotal Business	18	50,000
10.	Rickshaw/Van	48	1,56,000
Total		604	18,38,000

Source: Field Study

**Some Successful Cases of BONOPHUL:**

**BOX-1**

Name : Rafeza Begum

Husband : Md. Haider Ali

Rafeza was a day labourer. She could not managed daily necessary foods for her family. Rafeza became a member of an NGO named "BANOPHUL". She received first loan of Taka 2,000/- to purchase an old Van. Her husband Haider maintained the family and repaid the loan by pulling the Van. Second time, she received a loan of Taka 5,000/- to purchase a Rickshaw. She repaid the loan from the earnings from this Rickshaw and also bought another Rickshaw. Third time, she received a loan of Taka 11,000/- to build her tin homestead. Fourth time, she received Taka 10,000/- as loan to purchase another Rickshaw which she leased out. Rafeza has one son and one daughter. The daughter reads in class eight and the son has been admitted in a school. Now, Rafeza leads a happy life with her husband and two children.

**BOX-2**

Name : Rizia Begum

Husband : Md. Amjad Hossain

Rizia Begum was a labour in a Fish Processing Company and maintained her family. Her husband was sick and unemployed. She was very unhappy with poverty. She became a member of "BANOPHUL" – an NGO in the year 2000 and she received first loan of Taka 3,000/-. Her husband started a tea stall from this money and repaid the loan. Second time, she received Taka 5,000/- as loan and opened a hotel. She herself and her elder son work in that hotel. Third and fourth time, she

received loan of Taka 6,000/- and Taka 10,000/- respectively for her hotel. Rizia, her husband and two sons work in the hotel. Now, she purchased a Television, a Cassette and built a homestead and now lives in peace with her family there.

### **BOX-3**

Name : Jahanara Begum

Husband : Md. Wazed Ali

Jahanara Begum is the only daughter of her parents. After her marriage she resides her husband's home. But she was in tension regarding her sick parents. She became a member of an NGO named "BANOPHUL" in the year 2000. For the first time, she received a loan of Taka 3,000/- to buy old papers for making packets. She repaid the loan from the earnings and maintains her family. Second time, she received a loan of Taka 6,000/- for making packets. Now, she is self-reliant and also bought a piece of land in which she has built a homestead and maintains her family well.

### **BOX-4**

Name : Md. Nasir

Father : Md. Hashem ali

For the first time, Md. Nasir received a loan of Taka 2,000/- from an NGO named "BANOPHUL" to purchase an old Van. He repaid the loan and maintains his family by pulling the Van. Second time, he received Taka 4,000/- as loan for small business. He sales vegetables in his Van and maintains his family. One of his sons now reads in class one and the other is a baby. They live in peace now.

**BOX-5**

Name : Most. Jostna

Husband : Khokon

Jostna was a maidservant. She became a member of an NGO named "BANOPHUL" in the year 1996 and received a loan of Taka 4,000/- to purchase a sewing machine for her elder daughter. The daughter repaid the loan and gives financial support to the family by sewing. Second time, she received a loan of Taka 5,000/- for a Rickshaw garage and repaid the loan. Third time, she received Taka 7,000/- as loan to purchase sewing machines. At present, she and her other four employees are engaged in sewing works.



### 6.1. 13: CDP (Upokulio Unnayan Shahojogy)

Upokulio Unnayan Shahojogy (CDP) established in 1997. It covers one District (Part) and cumulative number of borrowers is 124. The range of loan amount is Taka 3,000-10,000/-. This NGO disbursed total Tk. 73,000/- in the year 2003 as micro-credit for income generation and loan recovery rate is 77 per cent.

**Table – 15: Sector-wise Micro-Credit Disbursed by Upokulio Unnayan Shahojogy**

Sl. No.	Sector	No. of group members	Amount disbursed (2003)
1.	Cow Purchase	4	20,000
2.	Rickshaw Purchase	5	20,000
3.	Shoe Shop	1	3,000
4.	Cloth Business	1	3,000
5.	Hawker	1	4,000
6.	Sewing Machine Purchase	1	3,000
7.	Meat Sale	4	20,000
Total		17	73,000

Source: Field Study

### 6.1. 14: NOBOLOK

NOBOLOK established in 1986. It covers one District (Part) and cumulative number of borrowers is 8232. The range of loan amount is Taka 4,000-20,000/-. This NGO disbursed total Tk. 66,50,000/- in the year 2002-2003 as micro-credit for income generation and loan recovery rate is 99 per cent.

**Table – 16: Sector-wise Micro-Credit Disbursed by NOBOLOK**

Sl. No.	Sector	No. of group members	Amount disbursed (2002-2003)
1.	Agriculture	580	23,60,000
2.	Fish Cultivation	220	15,80,000
3.	Cottage Industries	160	6,40,000
4.	Rickshaw/Van	80	3,20,000
5.	Poultry and Livestock	150	10,50,000
6.	Small Business	140	7,00,000
7.	Meat Sale	4	20,000
Total		1330	66,50,000

Source: Field Study

### 6.1. 15: CARITAS Bangladesh, Khulna

KARITAS Bangladesh, Khulna established in 1971. It covers one District (Part) and cumulative number of borrowers is 11790. The range of loan amount is Taka 3,000-10,000/-. This NGO disbursed total Tk. 93,30,000/- in the year 2002-2003 as micro-credit for income generation and loan recovery rate is 95 per cent.

**Table – 17: Sector-wise Micro-Credit Disbursed by KARITAS Bangladesh, Khulna**

Sl. No.	Sector	No. of group members	Amount disbursed (2002-2003)
1.	Agriculture	238	11,94,000
2.	Poultry and Livestock	391	20,37,000
3.	Fish Culture	351	19,90,000
4.	Cottage Industry	34	2,09,000
5.	Transport	58	2,86,000
6.	Small Trading	548	31,17,000
7.	Housing	76	4,25,000
8.	Others	16	72,000
Total		1712	93,30,000

Source: Field Study

### 6.1. 16: JJS (Jagrata Jubo Shangha)

Jagrata Jubo Shangha (JJS) established in 1988. It covers 6 Upazilas of 2 Districts and cumulative number of borrowers is 25096. The range of loan amount is Taka 2,000-10,000/-. This NGO disbursed total Tk. 1,92,36,000/- in the year 2003 as micro-credit for income generation and loan recovery rate is 93 per cent.

**Table – 18: Sector-wise Micro-Credit Disbursed by Jagrata Jubo Shangha (JJS)**

Sl. No.	Sector	No. of group members	Amount disbursed (2003)
1.	Agriculture	755	37,81,000
2.	Small Industries	441	11,12,000
3.	Consumer Goods	564	37,15,000
4.	Small Business	1818	1,06,28,000
	Total	3578	1,92,36,000

Source: Field Study



### 6.1. 17: BRIC- Bangladesh Resource Improvement Center

BRIC established in 1996. It covers 3 Upazilas of 3 Districts and cumulative number of borrowers is 367. This NGO disbursed total Tk 2,15,000/- in the year 2002-2003 as micro-credit for income generation and loan recovery rate is 98 per cent.

**Table – 19: Sector-wise micro-credit disbursed by BRIC**

Sl. No.	Sector	No. of group members	Amount disbursed (2002-2003)
1.	Agriculture	5	15,000
2.	Fisheries	15	45,000
3.	Food Processing	10	20,000
4.	Small Business	30	75,000
5.	Poultry	10	45,000
6.	Goat Rearing	3	15,000
	Total	73	2,15,000

Source: Field Study

**6.1. 18: UNNAYAN**

UNNAYAN established in 1983. It covers 4 Upazilas of 2 Districts and cumulative number of borrowers is 7436. The range of loan amount is Taka 4,000-20,000/-. This NGO disbursed total Tk 4,79,57,000/- in the year 2002-2003 as micro-credit for income generation and loan recovery rate is 98 per cent.

**Table – 20: Sector-wise Micro-Credit Disbursed by UNNAYAN**

Sl. No.	Sector	No. of group members	Amount disbursed (2002-2003)
1.	Agriculture	102	91,60,000
2.	Poultry	55	49,50,000
3.	Buck Rearing	52	37,30,000
4.	Goat Rearing	75	34,47,000
5.	Small Trade	235	1,09,50,000
6.	Cattle Rearing	25	24,00,000
7.	Fish Culture	37	25,90,000
8.	Handicrafts	19	38,50,000
9.	Rickshaw/Van	86	67,80,000
Total		686	4,79,57,000

Source: Field Study

### 6.1. 19: SEBA- Social Edification of Benign Association

SEBA established in 1997. It covers two Districts (Part) and cumulative number of borrowers is 321. The range of loan amount is Taka 3,000-10,000/-. This NGO disbursed total Tk 13,63,000/- in the year 2003-2003 as micro-credit for income generation and loan recovery rate is 90 per cent.

**Table – 21: District-wise Micro-Credit Disbursed by SEBA**

Sl. No.	District	No. of group members	Amount disbursed (2002-2003)
1.	Khulna	197	3,35,000
2.	Bagarhat (Mongla)	124	10,28,000
Total		321	13,63,000

Source: Field Study

## 6.2 NGOs AT DAMODORE VILLAGE

Damodore village is one of the six villages of Damodore union under Phultala upazila of Khulna district. Phultala upazila is located at the North-West of Khulna and the distance of Damodore village is 22 km. from Khulna city. Area of this village is 4.5 sq. km. Total population is about 6,000. Half of them are male and female and thirty-five per cent of total population is poor.

The main occupations of the people of this village are agriculture, fishery product and small trading. They use modern technology to produce paddy but they use traditional technology for fishery product. At present, women are involved in external jobs and they participate in various income generating activities of NGOs. They are also aware of human rights. Thus, the disparity between men and women has been reduced. Law and order situation of Damodore village is not satisfactory.

*Total 18 NGOs are working at Damodore village with micro-credit. Some of these NGOs are working at national level, regional level and local level. The micro-credit activities of these types of NGOs are discussed below:*



### **6.2. 1:ASA(Association for Social Advancement):**

ASA is a national level NGO and it is the largest NGO in Bangladesh. ASA started giving micro-credit for income generation at Damodore village since 1996. This NGO forms groups and each group consists of 10-30 female members have not or less than 50 decimal of land and between the age of 18-45 years. The members get Tk. 5,000-14,000/- as credit for income generating programs. ASA also gives small trade loan to the poor men and women. Its range is from TK. 12,000 - 22,000/-. The borrowers repay their loan on weekly basis or according to the conditions of loan procedure.

As per procedure, the women members of “Udayan Bhumiheen Mahila Samity, Damodore” (Udayan Landless Women’s Association, Damodore ), took micro-credit for their income generating projects. They invested Taka to buy van, fishery product, furniture business, producing stick of umbrella and daster. Rate of loan recovery is 99.95%. The borrowers use the loan through their family members and it is helpful for generating additional income for the family.

### **6.2.2 : BRAC(Bangladesh Rural Advancement Committee):**

BRAC is also a national level NGO and it started its function at Damodore village since 1995. They give Tk. 3,000 - 30,000/- as micro-credit to their group members. Each group consists of 15-30 female members have not or less than 50 decimal of land and between the age of 20-45 years. They also give small trade loan from Tk. 20,000 - 3,000,00/- to the poor men. The borrowers repay their loan on weekly basis or as per condition of loan procedure.

The borrowers of “Damodore Brahminpara Sramajibi Mahila Samity” invested their loan money to buy van, tampoo, tube-well and to produce stick of umbrella, and duster. They also invested money in poultry farm, fishery product and small trade. Rate of recovery is 99%. The borrowers use the money on family basis for income generation.

### **6.2.3 : Bachte Shekha:**

In English “Bachte Shekha” means learn to survive. It is a regional NGO which works in Jessore and Khulna region. It started its function at Damodore village since 1990. This NGO forms groups and each group consists of 15-30 female members have not or less than 50 decimal of land and between the age of 18-45 years. The range of loan is Tk. 2,000-10,000/-

The members of “Bachte Shekha Agaman Mahila Samity Damodore” invested their loan amount in poultry and livestock, fishery product, nursery, agriculture, small industries and small trade. Rate of recovery is 99%. The borrowers use the loan on family basis to generate their family income.

### **6.2.4: Prottay:**

In English “Prottay” means confidence. Prottay is a local level NGO and it works only at Damodore village since 1993. It started from a very small range of operational activities. Its vision is to enabling women to enjoy equal rights and opportunities in the society to establish an healthy environment, exploitation free, just society for women, men and children.

And its mission is to establish fair society, free from superstition, ignorance, human rights, violation and hunger through legal aid, health training, education, environment protection and socio-economic development activities.

The objectives were to reach the victimized men and women of Phultala Upazila of Khulna district to provide financial and technical support to them. With a view to reach the most disadvantaged community work with them directly who are below the poverty line. These people are either landless or do not enough land to afford their livelihood to support their families.

Economical Development Program (EDP) of Prottay was established since 1997 with a view to provide a comprehensive service to the poorest women sector incorporating awareness building, savings generation, credit support for income generating activities. The outreach program organized for landless poor and helped them to uplift their position in the society through social mobilization.

This income generating program provides credit and training to the poorest women and helped their initial activities for generating additional income for their families. Prottay has formed groups and each group consists of 15 female members have not or less than 50 decimal of land and between the age of 18-50 years old. They have to attend once a week in weekly meetings. The range of loan amount is Tk. 4,000- 10,000/-. Rate of recovery is 93%.

**Table-22 : Information of the Activities: Prottay supported loans to the group members since 1997-2001**

Sl.No.	Activities	No. of group members	Amount disbursed
1	Prawn fish culture Development Program	150	Tk. 7,25,00
2.	Poultry Development Program	100	Tk. 3,75,00
3.	Fish culture Development Program	50	Tk. 2,50,00
4.	Cows Fatality Development Program	100	Tk. 10,000
5.	Handlooms and Handicrafts Development Program	110	Tk. 1,50,00__
	Total	510	Tk. 17,00,000

Source : Annual Report of Prottay, 2001

**Table-23 : Information regarding Micro-Credit of Prottay**

Sl. No.	Subject	Number/Amount
1.	Total No's of activities loan given	05
2.	Total No's of beneficiaries loan received	510
3.	Total account of loan given	Tk. 1,700,00
4.	Total recovery of principal amount	Tk. 15,73,612
5.	Total recovery of service charge	Tk. 2,38,148

Source : Annual Report of Prottay, 2001

Prottay has supported the loans to group members of “Chameli Mahila Samity, Demodore Railgate” for following activities:

- i. Prawn fish culture development program;
- ii. Poultry development program;
- iii. Cows fatality development program;
- iv. Fish culture development program; and
- v. Handloom and Handicrafts development program.

### **6.3 NGOs AT BARA BAUL VILLAGE OF DINAJPUR DISTRICT**

Bara Baul village is under Chirir Bandar Upazila of Dinajpur district, Rajshahi Division. Chirir Bandar upazila is located at the Eastern side of Dinajpur and the distance of Bara Baul village is 22 km. from Dinajpur town. Area of this upazila is 312.85sq. km. and total population is about 2,32,409 (Census, 1991). Half of them are male and female. Total number of Unions and Villages are respectively 12 and 141. Bara Baul is under “Auliapukur Union” which consists of 19 villages.

The main occupations of the people of this village are agriculture, small business and service. They use modern technology to produce paddy. At present women are involved in external jobs and they participate in various income generating activities of NGOs and other government departments. They are also aware of human rights. Thus, the disparity between men and women has been reduced. Law and order situation of Bara Baul village is satisfactory.



Socio-economic status of the Respondents of Village Bara Baul is shown below :

**Table-24: Land use of the Respondents**

Sl. No.	Type of Land	0-.25	.25-50	.50-1.00	1.00-2.00	2.00-5.00	5.00-8.00
1.	Homestead	4	3	1	1	-	-
2.	Cultivable	-	1	1	4	2	1
3.	Lease	-	1	-	-	-	-
4.	Pond or Garden	5	1	-	-	-	-

Source: Field Study

**Table-25: Livestock of the Respondents**

Sl. No.	Class	0-5	5-20	20-30
1.	Cow	8	-	-
2.	Buffalo	1	-	-
3.	Goat	3	-	-
4.	Sheep	2	-	-
5.	Duck	5	3	-
6.	Hen	1	5	2
7.	Pigeon	1	2	1

Source: Field Study

**Table-26: Trees of the Respondents**

Class	0-20	20-30	30-50	50-70
Fruit	7	1	1	-
Others	7	-	1	1

Source: Field Study

Total five NGOs and four Government Departments are working at Bara Baul village with micro-credit. Some of these NGOs and government departments are working at national level, regional level and local level. The micro-credit activities of these organizations are discussed below:

### **6.3.1: BRAC ( Bangladesh Rural Advancement Committee) :**

BRAC is a national level NGO and it started its function at Bara Baul village in 2003. They give Tk. 3,000-30,000/- as micro-credit to their group members. Each group consists of 15-30 female members have not or less than 50 decimal of land and between the age of 20-45 years. They also give small trade loan from Tk. 20,000-3,000,00/- to the poor men. The borrowers repay their loan on weekly basis or as per condition of loan procedure.

Micro-credit activities of BRAC at Bara Baul village is given below :

**Table- 27: Activities of BRAC at Bara Baul**

(1)	Number of Association (Samity)	5
(2)	Number of Borrowers	165
(3)	Amount of Micro-credit	Tk. 6,95,810/-
(4)	Amount of Savings	Tk. 1,29,510/-
(5)	Loan Recovery Rate	96%

Source: Field Study

**A Successful Case of BRAC:**

**BOX- 6**

Name : Alo Bala  
 Husband : Hriday  
 Village : Bara Baul

Alo Bala became a member of an NGO named “BRAC”. She received first loan of Taka 3,000/- to purchase a Van in 2003. Her husband Hriday maintained the family and repaid the loan within one year by pulling the Van. Second time, she received a loan of Taka 5,000/-to purchase a cow. Third time, she received Taka 9,000/- as loan for small business. Now, Alo Bala leads a happy life.

**6.3.2: TMSS (Thengamara Mahila Sabuj Sangha) :**

TMSS started its operation at Bara Baul village in 2004. Activities of TMSS are as follows :

**Table-28: Activities of TMSS at Bara Baul**

(1)	Number of Members	20
(2)	Amount of Micro-credit	1,14,975/-

Source: Field Study

**A Successful Case of TMSS:**

**BOX- 7**

Name : Most. Kohinoor  
Husband : Md. Abdus Samad  
Village : Bara Baul

Most. Kohinoor, a member of TMSS received a loan of Taka3,000/- for crushing paddy. Second time, she received a loan of Taka 5,000/- for the same purpose. Her two sons read in class six and the other son reads in class two. Now, she maintains her family well.

**A Successful Case of TMSS:**

**BOX- 8**

Name : Majida Begum  
Husband : Md. Wahab  
Village : Bara Baul

Majida Begum was a day labourer. She received first loan to Taka3,000/- from TMSS and repaid the loan. Second time, she received a loan of Taka 5,000/- for crushing paddy. Now Majida lives in peace with her family.

### 6.3.3: Grameen Bank

Grameen Bank started its function at Bara Baul village in 1991. Grameen Bank formed two Associations (Samity) at this village. All the members are landless women. One association consist of 70 female members and the other association consists of 70 female members.

#### A Successful Case of Grameen Bank:

##### BOX- 9

**Name** : **Most. Rokeya Begum**

**Village** : **Bara Baul**

Rokeya's husband was a day labourer. He could not managed daily necessary foods for his family. Rokeya became a member of Bara Baul Landless Mahila Samity in 1993. She received first loan of Taka 2,000/- and next year she received second loan of Taka 5,000/-. Next year, she received third loan of Taka 7,000/-. Before receiveing loan, Rokeya had only 20 decimal of land. But now she owned 125 decimal of land. She had also three cows and four goats. Her son is a S.S.C candidate. They live in peace now.

#### A Successful Case of Grameen Bank:

##### BOX- 10

**Name** : **Most. Shaheda Begum**

**Village** : **Bara Baul**

Shaheda was a poor women. Her homestead was constructed by cley before receiving loan. But now her homestead is built by brick and she had four cows and a duck farm. She also educated her children. She is happy now.



#### **6.3.4: Palli Daridra Bimochan Foundation :**

Palli Daridra Bimochan Foundation started its function at Bara Baul village in 2000. This foundation formed an association named “ East Bara Baul Samity” which consists of 33 female members and disbursed total Taka 2,43,000/- among the members. Rate of repayment is 99%.

#### **Successful Four Cases of Palli Daridra Bimochan Foundation:**

##### **BOX- 11**

**Name : Hosne Ara**

**Village : Bara Baul**

Hosna Ara received first loan of Taka 5,000/- to start a small business. She received seven time loan till now. She established a rice mill and have a semi-pacca homestead. Her children have been admitted in a school. She is self reliant now.

##### **BOX- 12**

**Name : Zarina Begum**

**Village : Bara Baul**

Zarina Begum could not managed daily necessary foods for her family. She became a member of this Foundation and first time, she received a loan of Taka 4,000/- to buy a cow. After receiving second loan, she started a small business with her husband. She has built a sami-pacca homestead and her children to school. Now, she maintains her family well.

**BOX- 13**

**Name** : **Shamlata**

**Village** : **Bara Baul**

*Shamlata received first loan of Taka 4,000- to buy a cow. She repaid this loan and have four cows now. Second time, she received loan to start a business with her husband. At present, her savings is Taka 8,661/-. They live in peace now.*

**BOX- 14**

**Name** : **Jamuna**

**Village** : **Bara Baul**

Jamuna is the chairperson of an association named "East Bara Baul Samity". She received loan to buy cows. She has built a semi-pacca homestead. Her children go to school. She is now happy.

## **6.4 South Asia Partnership-Bangladesh (SAP-Bangladesh)**

### **6.4.1 Program Title : Micro Credit Program**

### **6.4.2 Project Goal:**

Poverty alleviation and ensure socio economic development of disadvantages people especially women.

### **6.4.3 Objectives :**

- a. To provide better financial services for the poor.
- b. To provide Micro-credit support to beneficiaries for self-employment and enterprise development.
- c. To promote community organizations of poor women for self-help and sustainable development
- d. To eliminate poverty among hardcore poor and poor people once and forever.
- e. To develop social awareness & leadership among beneficiaries through weekly meeting
- f. Develop and adopt a savings utilization policy ensuring maximum benefit of the target beneficiaries.

#### **6.4.4 Main activities::**

- a. Group Formation
- b. Awareness build up
- c. Savings Mobilization
- d. Loan Disbursement
- e. IGA related Training

#### **6.4.5 Project Beneficiaries :**

##### **-Category**

Poor, Extreme Poor and Beggars

##### **Criteria for selection**

- a. Landless poor people focusing women
- b. People who own less than half an acre of land
- c. People who earn their living by selling manual labor, and:
- d. The hard core poor, who live below poverty line.

No of Direct Beneficiaries: 27,169

No of Indirect beneficiaries: 1, 08,676

#### **6.4.6 Results:**

- Micro credit raised income and increased assets among target beneficiaries.

- It reduced vulnerability and ensured sustainable food security.
- Socially empowered its group members (100% women) and contributed to the broader social and economic development.
- The groups are dynamic and participating in the decision making process
- Group members' earnings have increased by involving different IGA activities
- Group members are practicing non-traditional economic activities.
- Group members are self-employed.

**6.4.7 Project Duration: Feb 1987 to Continue.....**



**6.4.8 Locations of Working Area**

District	Upazilla	Unions
Patuakhali	03	33
Bagerhat	01	08
Dhaka	02	-
Sirajgonj	08	20
<b>Total</b>	<b>14</b>	<b>61</b>

Source: Field Study

**6.4.9 Budget for Last 3 Years**

Year	Amount (TK)
2008-2009	40,92,91,560
2007-2008	27,83,18,470
2006-2007	18,93,20,670

Source: Field Study

**6.4.10 SAP-Bangladesh Micro Finance: At a Glance**

Program Coverage	4 Districts
Offices	27
Number of Group Members	27.238
Percentage of Women Members	95.16%
Percentage of Ultra Poor Members	11.93%
Number of Borrowers	23.533
Percentage of Women Borrowers	94.68%
Cumulative Loan Disbursement	102,42,57,000 BDT
Loan Outstanding	17, 53, 15, 377 BDT
Total Member Savings	4,04,16,763 BDT
Re-payment Rate	95.62%

Source: SAP-Bangladesh, Annual Report (2009-2010)

**6.4.11 Group size : 25-30 Beneficiaries****6.4.12 No of Groups : 1290****6.4.13 Groups Information:**

<b>Groups Name</b>	<b>Average Size</b>	<b>Purpose</b>	<b>No of Groups</b>
Rural Micro Credit (RMC)	25-30	Reducing poverty, increasing awareness on different social issues among the rural community and bring them into income generating process, make them able to contribute in the socio-economic development system	751
Urban Micro Credit (UMC)	25-30	Informal sector, small entrepreneurs, skilled laborers and other off-farm activities. This credit program provides low interest and collateral free loan through fixed savings and loan repayment scheme for the urban poor.	287
Micro Enterprise (ME)	1-30	Micro enterprise is to enhance especially financial capacity of individuals or group of clients at the community along with other necessary supports to start initiative for income generating or gear up existing income generating work. For which clients can enjoy happy life with sustainable income generating process.	132
Ultra Poor (UP)	25-30	To increase awareness for mental and social development of the vulnerable people and make them able to live in the society with honor by organizing & motivating them, involve them in development work, make them self dependent, creating savings tendency and finally establish their rights in the society.	197

Source: Field Study

**6.4.14 A Successful case study of SAP-Bangladesh on Self-employed Woman**

**Box-15**

**Project: Embroidery Business**

**Entry Date: 04-03-2005**

Ms. Anwara Begum

Wife of: Md Uzzal Hossain

Village: Doulatpur

P.O: Doulotpur

Upazila: Belkuchi

District: Sirajganj

**Condition before receiving credit:**

Ms. Anwara Begum, wife of Md. Uzzal Hossain, is a poor housewife at Doulatpur village of Doulatpur union at Belkuchi Upazila under Sirajganj district. Her family was needy and the predicament was common phenomenon in their family in terms of lack of education, rights to basic needs. For meeting up their regular necessities, both of them (husband & wife) were engaged to a hand loom owned by other people. Ms. Anwara always feels retiring to work in others houses since she was a girl of a rich family.

After some days, Ms. Anwara received Taka 5000 as loan from

“Papiya Mohila Shamiti” administrated by South Asia Partnership-Bangladesh in consultation with her husband. She bought an embroidery machine with this amount and started her journey with the previous knowledge gathered at her parents’ house. And through this way, Ms Anwara started her journey to the success. Primarily, she faced many problems including collecting raw materials, and lack of available orders, etc.

**Condition after receiving loans:**

Now, Anwara living a happy life with her husband and two children. “I am earning Taka 15000 to 25000 per month from embroidery work”- Anwara said. She is maintaining twelve machines including sewing machines and a generator. Twelve employees are being attached with her initiatives at the one end, while her husband is providing all out supports in the other. At present, Anwara received Taka 40,000 from South Asia Partnership-Bangladesh and demanding more due to her increasing demand in the society. She needs 5 machines more according to the demand of her production. She has been supplying the products to many places of the country while many young girls and women are the regular student in her plant.

From her mind, she has initiated to learn the women and girls of her society regarding the matter. “The knowledge on swing and embroidery made me self-dependent; I wish the all out success of every woman in my

society. For making the self-dependent society, I am providing the knowledge to everyone”- she added.

She thanked to SAP-Bangladesh for providing supports in the early stage in her career. If SAP-BD did not provide the capital, how I would be able to be in this position?” - Anwara asked. Once upon a time, her children were marginalized in the society and they were in the position to be dropped out from the school. But the situation changed and Anwara dreamed to be social factor in future.

Source : Field Survey



## **6.5 Poverty Alleviation, Sustainability and Entrepreneurial development**

### **6.5.1 Poverty Situation, NGO Initiatives for Entrepreneurial Development and Constraints:**

Bangladesh is one of the world's poorest countries and the population is predominantly rural, with about 85 per cent of its 140 million people living in rural areas. It is estimated that rural poverty rates now stands at around 50 per cent, and more than 25 per cent of rural households live in extreme poverty. Women are among the poorest of the rural poor, especially when they are the heads of their households, such as widows or wives of men who have migrated in search of employment. They suffer discrimination because of their gender, they have scarce income-earning opportunities.

In the last two decades, women in the rural Bangladesh have been encouraged by NGOs to get involved in income-generating activities (IGA) at the household level. In most cases, support through the provision of micro-credit has been extended – this served the dual purpose of reducing poverty as well as increasing their capacity to sustain their livelihoods.

However, there is a gap in the development of entrepreneurial skills of rural women. This entails two major problems in sustaining the impact of the micro-credit programs which are as follows :

- (a) There has always been excessive focus of micro-credit programs on group mobilization rather than identification of appropriate income-generating activities or enterprise development opportunities; and
- (b) There were inadequate links between micro-credit and enterprise development, as a result of which the sustainability of the enterprises established were not always long-lived.

In this regard, an entrepreneur is someone who undertakes an enterprise. He/She owns and manages a business and generates additional employment. It is also essential for an entrepreneur to overcome his/her behavioural, managerial and social barriers.

The above constraints experienced by women entrepreneurs in particular are as follows:

- (a) **Behavioural barriers:** Rural women in general have little confidence in taking risks that are needed to start an enterprise i.e. lack of self confidence in the woman entrepreneur. As a result, family members and others are not willing to support women entrepreneurs.

**(b) Managerial barriers :** Rural women entrepreneurs generally have a lower educational level and they are incapable to comprehend the intricacies of modern technology; and women entrepreneurs can not become successful entrepreneurs due to lack of access to market information. Moreover, women are forced to select localized based enterprise.

**(c) Social barriers :** Women entrepreneurs are subjected a number of social and cultural barriers that compel them to occupy secondary position to male entrepreneurs. Their different responsibilities within households places a huge demand on their time which pauses as a constraint and land is crucial for establishing a business. But women entrepreneurs do not have access to land. Moreover, they do not have the scope of receiving assistance from service providers.

**(d) Additional employment generation :** Due to the above mentioned behavioural, managerial and social barriers, the women cannot develop their entrepreneurial skills and are not able to employ additional manpower for their business.

## 6.5.2 MATRIX

Here below a matrix has been developed from fifteen case studies with a view to testing hypotheses which will be elaborated in the next chapter.

**Table-29 : Analysis of case studies regarding poverty alleviation, sustainability and entrepreneurial development in the context of behavioural, managerial and social barriers and Additional Employment Generation**

Box No.	Case Studies	Poverty Alleviation	Sustainability	Entrepreneurial Development (Behavioural, Managerial, Social barriers and Additional Employment Generation)
01.	<b>Rafeza Begum</b> of BANOPHUL	Yes	Yes	Behaviour : Changed Managerial Skill : Developed Social Barriers : Passed Additional Employment Generation : Yes
02.	<b>Rizia Begum</b> of BANOPHUL	Yes	Yes	Behaviour : Changed Managerial Skill : Not developed Social Barriers : Passed Additional Employment Generation : No. Self-employed
03.	<b>Jahanara Begum</b> of BANOPHUL	Yes	Yes	Behaviour : Changed Managerial Skill : Not developed Social Barriers : Passed Additional Employment Generation : No. Self-employed

Box No.	Case Studies	Poverty Alleviation	Sustainability	Entrepreneurial Development (Behavioural, Managerial, Social barriers and Additional Employment Generation)
04.	<b>Md. Nasir</b> of <b>BANOPHUL</b>	Yes	Yes	Behaviour : Changed Managerial Skill : Not developed Social Barriers : Passed Additional Employment Generation : No. Self-employed
05.	<b>Most. Jostna</b> of <b>BANOPHUL</b>	Yes	Yes	Behaviour : Changed Managerial Skill : Developed Social Barriers : Passed Additional Employment Generation : Yes
06.	<b>Alo Bala</b> of BRAC	Yes	Yes	Behaviour : Changed Managerial Skill : Not developed Social Barriers : Passed Additional Employment Generation : No. Self-employed
07.	<b>Most. Kohinoor</b> of TMSS	Yes	Yes	Behaviour : Changed Managerial Skill : Not developed Social Barriers : Passed Additional Employment Generation : No. Self-employed
08.	<b>Majida Begum</b> of TMSS	Yes	Yes	Behaviour : Changed Managerial Skill : Not developed Social Barriers : Passed Additional Employment Generation : No. Self-employed



Box No.	Case Studies	Poverty Alleviation	Sustainability	Entrepreneurial Development (Behavioural, Managerial, Social barriers and Additional Employment Generation)
09.	<b>Rokeya Begum</b> of Grameen Bank	Yes	Yes	Behaviour : Changed Managerial Skill : Not developed Social Barriers : Passed Additional Employment Generation : No. Self-employed
10.	<b>Shaheda Begum</b> of Grameen Bank	Yes	Yes	Behaviour : Changed Managerial Skill : Not developed Social Barriers : Passed Additional Employment Generation : No. Self-employed
11.	<b>Hosne Ara</b> of Palli Daridra Bimochan Foundation	Yes	Yes	Behaviour : Changed Managerial Skill : Not developed Social Barriers : Passed Additional Employment Generation : No. Self-employed
12.	<b>Zarina Begum</b> of Palli Daridra Bimochan Foundation	Yes	Yes	Behaviour : Changed Managerial Skill : Not developed Social Barriers : Passed Additional Employment Generation : No. Self-employed
13.	<b>Shamlata</b> of Palli Daridra Bimochan Foundation	Yes	Yes	Behaviour : Changed Managerial Skill : Not developed Social Barriers : Passed Additional Employment Generation : No. Self-employed

Box No.	Case Studies	Poverty Alleviation	Sustainability	Entrepreneurial Development (Behavioural, Managerial, Social barriers and Additional Employment Generation)
14.	<b>Jamuna</b> of Palli Daridra Bimochan Foundation	Yes	Yes	Behaviour : Changed Managerial Skill : Not developed Social Barriers : Passed Additional Employment Generation : No. Self-employed
15.	<b>Ms. Anwara</b> <b>Begum</b> of SAP Bangladesh	Yes	Yes	Behaviour : Changed Managerial Skill : Developed Social Barriers : Passed Additional Employment Generation : Yes

Source : Field Study

## CHAPTER- 7

### TOWARDS AN ANALYSIS AND ASSESSMENT OF THE IMPACT OF MICRO-CREDIT: NGOs UNDER CASE STUDIES

#### 7.1 Micro-credit System of NGOs

The NGOs, of Bangladesh are working in the following broad areas for poverty alleviation:

- (i) Health and family planning;
- (ii) Education/literacy;
- (iii) Rural credit and employment; and,
- (iv) Conscientization /awareness-raising or skill training.

Poverty is a serious problem in this country. The NGOs try to alleviate poverty with their micro-credit programs. They can implement micro-credit programs commercially (distinct from moneylenders) with the formal banking system that would help to create funds and employment generation activities in this country.

The main cause of poverty in Bangladesh is the lack of accessibility to credit. Micro-credit given by the NGOs without collateral is a means for poverty alleviation. NGOs are playing an important role in poverty reduction. The goal of micro-credit is to generate income opportunities. There is significant risk involved in the income generating activities of the micro-borrowers. The micro-borrower's ability to repay the loan is evaluated jointly with other members of the group.

The immediate objective of micro-credit is to increase production, employment and income of the small homogeneous groups, promotion of savings habit amongst them for accumulation of their own capital for undertaking various income generating activities.

The micro-credit program has been developed placing female borrowers at the centre of a family. The idea was that with the empowerment of a female member, a family's income generating capacity would significantly increase to support with male earners and thereby allow it to attain a better living.

The micro-credit package varied from the Tk. 1,000 to Tk. 10,000 for a five-year duration and it was being disbursed at a time. But one has to repay it in 50 instruments.

A number of targeted poverty reduction programs through micro-credit have been developed by the NGOs over the years in Bangladesh. Some of the micro-credit programs are :

1. Agriculture ;
2. Small Business ;
3. Fish and Shrimp Culture ;
4. Rickshaw and Van Purchase ;
5. Social Forestry ;
6. Poultry ;
7. Cow and Goat Rearing ;
8. Purchase of Sewing Machine ;
9. Food Processing ;
10. Cottage Industries ;

## **7.2 Conditions for Eligibility of Micro-credit:**

Common conditions for eligibility of micro-credit sanction to the individual by the NGOs are as follows:

1. The loan applicant should be poor, land less (who have small portion of land below 0.50 decimals), marginal or small farmers or

worker/day labourer/poor women. Mainly the poor women are encouraged for loan;

2. The loan applicant should be a regular member of a group consisting of 5-30 members ;
3. The age of loan applicant should be minimum 18 years and maximum 55 years ;
4. The member's physical presence in the weekly group meeting is a must ;
5. The member should deposit savings @ Tk. 5-10 per week ;
6. Generally, loans are issued to individual member but through the group;
7. Loanee are selected by the respective groups ;
8. The micro-credit package varies from Tk. 1000-10,000/- ;
9. The loan applicant should utilize the loan for income generating activities suitable for him ; and,
10. The loan applicant should be agreed to refund the loan in weekly meeting by 50 instalments with 15 per cent service charge.

### **7.3 Micro-credit Sanction Procedure :**

Micro-credit sanction procedure of NGOs are discussed below :

- (i) The group members place there requirement for loan in their weekly group meeting and after discussion on the requirement, the decision is noted down in the resolution book of the group ;
- (ii) The loan application form is signed by the Field Officer/Field Organizer after proper checking of the Pass Book and attendance of members according to the resolution book;



- (iii) The Field Officer then properly fills up the loan application form and submits it to the Project Co-ordinator or Manager;
- (iv) The Field Supervisor then goes to the field to investigate whether the borrower is genuine or false;
- (v) The Field Supervisor submits an Investigation Report or orally informs the Manager about the loan applicant;
- (vi) Then the loan application is placed to the Co-ordinator or the Chief Executive of the NGO for final approval;
- (vii) Then the loan refund undertaking form is filled up; and
- (viii) After the approval of the loan by the Co-ordinator or the Chief Executive, the relevant Accountant or the Manager accompanied by the Field Supervisor and Field Officer go to the group to disburse the loan.

#### **7.4 Reaching the Poor**

Development planners have traditionally considered reaching the poor as a difficult task because, in most developing countries, the proportion of people living in poverty is very high as compared to the amount of resources available to serve them. The poor often constitute a remote group different from the rest of the society and are alienated in many aspects and there is a serious communication gap between the planners and the poor, as well as between the poor and the government. Further, the poor had conventionally been bypassed by most development efforts, which had made the poor distrustful of outside intervention.

The micro-credit schemes of the NGOs and the NGO type government agencies appear to have succeeded in demonstration of their benefits for the poor, specially since, the approach of such schemes is

participatory i.e., the schemes recognize the right of the poor to contribute to project design, draw upon their observations and comments, deliver services through group based organizations and have transparency in operation.

The credit delivery mechanism of all the organizations under review is tuned to serve the poor. But what happens in the field, is the 'picking up' of the experienced and the relatively richer among the poor because of a recovery concern by the program field staff. The programs' field staff often do not have logistics, manpower and skill in conducting proper household surveys in the villages and also for processing and analysing the survey data for screening the target beneficiaries. The extent of reaching the poor thus becomes a matter of judgement basing on personal choices, preferences and biases of the field staff.

Not only the program field staff make the trade off between selecting members, who are poor and selecting those, who can repay loans on time. There would be members also present themselves in a way so that the field staff of a lending agency pick them up as borrowers. It is for this reason, a small village businessman or a small /medium landowner, in order to qualify for loan, may hide his landholdings, talk down the size of his capital underreport his income and exaggerate his problems. The program field staff, particularly of the government micro-credit schemes, often overlook such phenomena. NGOs claim that their field staff are more careful and methodical in screening out the nonconforming candidates for membership and loan, but they too, ultimately serve the richer of the poor.

In Bangladesh, the poorest are those rural households, which are headed by female individuals or persons, who are chronically ill or just quite old. And among the female population, the most distressed are the divorced,

separated or abandoned ones. Such women represent an extreme minority of the membership in micro-credit schemes.

Despite the fact that the NGO workers are highly motivated in serving the poor and are dedicated to work hard, at times it becomes really very difficult even for them to properly discharge the responsibilities of making the many field visits, sitting long with the beneficiaries, sharing the tragedies of their lives and simultaneously go along with maintaining and updating their books of accounts and monitoring the loan utilization activities. The workload is often very heavy because, in winter, the days are short and in summer, the roads are muddy and thus, constrained by a poor transport support, the field staff often move on foot and work from early morning through late at night to complete a day's schedule. This provokes the field staff to pick the richer and experienced clients, who are less credit risks, reside in locations usually with good communication links and take little time in understanding issues relating to credit terms and utilization of the credit fund.

### **7.5 Providing Credit to the Rural Poor**

In Bangladesh the better off subpopulations in rural areas obtain credit directly from the commercial banks and specialized financial institutions. The existing links of the small and marginal farmers are the merchants, suppliers, moneylenders and cooperatives. But the poor and landless traditionally remained deprived of the access to credit.

The poor therefor, have many reasons to be satisfied with the credit from the institutions reviewed. These organizations themselves come down to the doorsteps of the rural poor and assist them in assessing their credit needs. The transaction costs are fairly low for the borrowers and the loans

come with a package of extension and community development services. The interest rates charged by all the different agencies, no matter whether government or non-government, are much higher than the market interest rates, but this interest rate imbalance appears to be offset by considerations of the costs of motivation and training, the feeling of a security in working in groups, relatively comfortable repayment schedules and the involvement in gainful self-employment.

With the help of the GB credit the poor, particularly the women can now better utilize their skills and enterprise in new investment decisions. The loan portfolio of GB is comprised of general loan, technology loan, housing loan and collective loan.

Unlike GB, BRAC operates with a large number of different programs and the RCP that provides credit to the rural poor BRAC provides collective and individual loans.

Institutional credit services for the poor are now available in all the Upazilas and villages of Bangladesh, though however, the amount available may still remain well below the demands. The average credit size of the agencies reviewed is between Tk. 3000 to 5000 per person and this amount can promote self employment in petty trade or small scale livelihood activities.

Theoretically, most organizations have programs of short, medium and long term loans and the loans are supposed to be delivered to individuals for small scale livelihoods /trades as well as to groups/ collectives for medium/large scale enterprise. Experience suggests that the borrowers with small loans for livelihoods or trades operate with better success, earn better and consequently, demonstrate better repayment performance. Only a small



proportion of the loan funds has actually been disbursed for larger scale enterprises but surprisingly, the borrowers of this type of loan had shown relatively poor repayment rates. This conforms to J. Stockhausen's observation that " groups, which accept short term credit show a better repayment performance than those, which borrow long term"<sup>1</sup>. GB had to create special management unit for handling the problem. BRAC attained some success in operating with such 'larger' size credit, partly because the units financed by BRAC credit are being run as purely business enterprises rather than just accommodating the poverty alleviation effort ASA and Proshika did not venture with bigger size enterprise lone.

#### **7.6 Augmenting Employment and Income Generating Activities**

Credit provision by GB associated with productive self-employment has increased income sustainability. The GB has generated new employment for about one-fifth of its members. Most of those, who got new employment are the women. The statistics, however, reveal the fact that the GB does provide credit to those who already have employment and thus, some income.

Employment creation by Grameen Bank for the women appears to be significant since 46% of the women borrowers of GB were engaged in household work, which in fact may be treated as no occupation, and thus, the proportion of women GB borrowers having no previous occupation may be estimated as high as 75%.

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1. Stockhausen, J. **Credit Guarantee as an Instrument for Self-help in Developing Countries**, Friedrich-Ebert-Stiftung, Bonn, 1979.



With the help of annual loans from the Grameen Bank most borrowers have been able to considerably improve their living conditions within a short time. Many families have built new houses to replace dilapidated shacks in which they used to live.

BRAC credit program has been the subject of a large number of studies and some of these are based on extensive field level data processed by highly experienced researchers. Findings of such studies may be summarized as

- (a) the per capita annual income of rural individuals has increased significantly thanks to their joining the BRAC program;
- (b) after being enrolled as BRAC borrowers, the female members had gained significantly higher number of person days of employment than did their male counterparts; and
- (c) target beneficiaries of BRAC owned considerably more cattle, goat, chicken, rickshaws and weaving machines than those of other NGOs

The BRAC institutional and financial intermediation programs have greatly enhanced the income earning potentials of poor people, particularly of the poor rural women. Some of them contributed directly to the employment and income generation through credit and other input supplies and others did so indirectly by training and development of human resources. For example, the Income Generation for Vulnerable Group Development (IGVGD) program provided training to the people, mostly women, who after being trained, employed their skills in producing textile related products for 'Arong' sales network, also owned and managed by BRAC. BRAC trainees working under this arrangement earn a fee of 5% of the sale proceeds. The

Arong also buys the silk cocoons or silk thread from many of the several thousand women VO members employed in the silk production (cottage) industry.

BRAC loans are usually given for traditional activities, mostly in agricultural production, food processing, purchase of rural transport, poultry, cow or goat rearing, paddy husking, fishing or fish culture, small trading and irrigation. Trading has the largest share of individual loans. Collective loans however, are almost nil in trading. These loans consist of four groups: irrigation, rural industry, fisheries and rural transportation. According to some estimates, BRAC could generate employment for over a million of people in rural areas and thus prevented migration of people from rural to urban areas in the country.

ASA provides loans mainly to such sectors as paddy husking, poultry, small trading, tailoring, livestock, handicraft etc. ASA's micro credit scheme has a highly positive impact on members of age group 25-45, Their monthly income is such higher than that of other age groups. Almost 99% of members of ASA expressed their satisfaction on being involved with the organization and about 50% of them have fixed income generating scheme over years with support by the ASA credit.

Employment and income generating activities of Proshika are financed from two funds: the group savings fund and the revolving loan fund. Nearly two-thirds of the Proshika members felt that the training helped the members to increase income and productivity.

All these organizations reviewed above appear to have been successful in terms of creating employment opportunities and augmenting the income to the clients. An indirect measure that leads to such conclusion

is the high recovery rate (above 90%). Credit provision by these organizations has been associated with efforts towards developing opportunities for productive self-employment, savings generation, capital accumulation and meeting of some basic needs of the poor.

The income generating activities undertaken by the borrowers of these programs include paddy husking, poultry, petty trading, pisciculture, horticulture, weaving, fattening of cows, raising goats and milch cows, handicrafts production, rickshaw and rickshaw van driving, etc. The self sustaining and self reliant income generating projects funded by uncollateralized loans and with assistance from fellow group members and the field staff in a participatory environment now seems to be effective, because the projects are indigenously devised and the management and implementation techniques are earned through experience in learning by doing over a relatively long period.

Contribution of the programs reviewed in augmenting employment the income generation opportunities for the rural poor has a definite impact on their standard of living. However, the judgements on whether economic wellbeing of the rural poor has been uplifted are only preliminary. The findings are indicative of a positive change, though there are definitely the influences of many outside factors with respect to the level of living.

### **7.7 Providing Savings Services to the Poor**

GB credit delivery system incorporated the savings conditionality for its members with the logic that the consecutive disbursement of loans to the landless poor on an individual or even, group or center basis cannot in itself ensure the basis of security, because the size of loans and return on investment are too small to accumulate wealth. Savings of the poor, although

collected in small amounts, can become a powerful means of development and self-help. Savings mobilization is necessary for improving the viability of both borrowers and the lenders. On the one hand, it increases the members' financial resources, and on the other hand, it forces lenders to allocate resources efficiently because it must make interest and savings deposit payments to members. It also reduces the lenders' dependency on donor funds.

GB has recorded enormous growth in savings mobilization through mandatory and voluntary savings over the years.

Savings activity takes off in the BRAC credit program operation immediately after a village organization is established so that a savings habit develops automatically among the program beneficiaries.

Mandatory savings of the ASA borrower members, collected at the rate of Tk. 5 per member per week, are further invested through recycling in the loan fund. It has been estimated that within 5 to 6 years a member can accumulate Tk. 10000 as his own capital. Savings of the group members are mobilized and kept with ASA for proper financial management. Small savings accumulated together, provide an opportunity of further lending to the poor thus reducing dependence on outside financial assistance.

It appears that Proshika is almost similar to ASA in this regard, particularly since the program emphasis and the mode of operation of ASA and Proshika do not differ very much.

To cope with the spectrum of needs that confront the landless poor and to offer them security in the likelihood of emergencies, all the organizations under review have responded by creating a variety of fund savings schemes. The savings rate and systems vary from one organization to another.



Most of the organizations claim that they have introduced the savings schemes to promote savings habit of the beneficiaries and with the need-to-meet-- emergency consideration. But in reality, these schemes turn out to be systems that generate funds needed by the lending organizations and they use the money for bridging gaps in funds for their own operation expenses. The savings and emergency funds also serve as additional sources of income for the lending organizations in the form of a difference between the interest earned on these funds and that paid to the members. Some of these organizations do not pay any interest to members on their savings and further, a few even do not refund a part or the whole of the principal deposited as savings. But deductions made by the lenders from the loans sanctioned and retained by the lending organizations as borrower savings still remain included in the principal amount of loan disbursed and the borrowers 'repay' the amount along with interest, often without receiving the money when they leave groups or centers. Grameen Bank is the leader in this aspect and thanks to this mechanism, the accumulated savings of the GB members have raised to an amount sufficient enough to pay more than 70% of the outstanding liabilities of the bank. Organizations like ASA or Proshika generate less through such 'savings' but their service charge is higher than that of Grameen Bank. Government programs refund all the savings to the members when they retire or drop-out from the groups, but such programs do not have the provision of paying interest on savings accumulated by the borrowers and deposited in the account of the programs, no matter how long the money lies there.



## **7.8 Sustainability of Micro-Credit Programs**

The term 'sustainability' is related to growth or development that continues to its place even when the current efforts for that in the form of some project or programs are discontinued. Sustainability of a credit program refers to sustainability of the organization/institutions developed during implementation of the program as well as of the beneficiaries or the benefits accrued to them under the programs. However, in case a credit program is executed not in an organization/ institution, which is supposed to stay long, but by a short-medium or even long-term project with a finite duration, its institutional sustainability will mean the continuity of institutions, systems and values created by the project.

The four concepts of sustainability are financial viability, economic viability, institutional viability and borrower viability. A program or organization may be said financially viable, if cost per Taka lent is at least equal to the price (the interest rate it charges for lending to the borrower). It is economically viable, if it can make economic cost of fund (their opportunity cost) utilized in credit and other operations with the income it generates from lending and the program/ organization is institutionally viable, if it has effective, completely institutionalized procedures for ensuring administration and management succession, so that it is not dependent on an individual or a group of people. Finally, the borrower viability is interpreted as the capacity of the borrowers to sustain his/ her benefits, which during the period of involvement with the organization were greater than the cost of borrowing and, after graduation should be retained and enhanced.

GB and BRAC operations depend, to a large extent, on the availability of outside funds, both domestic and foreign, and these funds are made available as grants or at concessional rates. This fact heavily influences the financial and economic viability of GB and BRAC. Both GB and BRAC receive financial and economic subsidies and in both cases, the branches do not bear the cost of training and motivation. Under these circumstances, the organizations are financially and economically viable and more so are their branches.

It had been estimated that in order for GB and BRAC to operate with financial efficiency, they are to charge high annual interest rate to meet the cost of the principal. This estimate however, did not include the amount of financial benefit received by the GB and BRAC from different types of deposits (savings, tax or emergency fund) made by the borrowers in the lender's account. Further, the estimates suggest that labour productivity of the organizations (measured in terms of average membership and the lending per employee) is relatively high, but the capital productivity (measured by membership per thousand taka capital and lending per taka of capital) is sufficiently low. This has implications for the financial and economic sustainability of the programs and also this makes it difficult to judge whether they are cost effective.

Key factors that have positive contribution to the institutional sustainability of BRAC and GB are the subsidized funds, reduced transaction and monitoring cost (thanks to credit wholesaling through groups/centers), reduced cost of lending by granting membership and credit to more women (women have higher repayment rates or, lower default rates, can more easily be motivated and require less social development training since they have higher self fulfilling expectations). But there are also factors which have

negative effect on institutional sustainability-the high administrative costs, high overhead lending costs deriving from the high cost of membership mobilization and training and higher cost of lending to women, when they take smaller loans (women usually take small loans and this makes the cost per Taka of lending comparatively higher).

Both GB and BRAC may achieve sustainability by increasing loan disbursement, membership and savings. The institutional viability of BRAC and GB has been reviewed in terms of staff development activities and incentives contributing to the organizations' productivity and their potential capability to run with out using efficiency in the future, when the founders will retire. An evaluation of the historical development of management pattern and its efficiency suggests that both BRAC and GB are institutionally viable. The organizations have learnt through an experience of about 35 years and of countrywide work with ever expanding number of the rural poor. The institutional viability however, is achieved by huge outside funding support that created the physical and technical facilities for administration and training.

Viability of borrowers indicates that of credit organizations themselves and this has been attempted to be measured indirectly through group integrity (drop-out rate) and regularity in payments, assuming that if the borrowers find it cost effective, they will not leave the groups prematurely, and if their incomes from use of loans are high, they will not be irregular in repayments.

## **7.9 Common Characteristics**

It is found that the common characteristics of the micro-credit giving NGOs are as follows:

1. Group: 5-30 members;
2. Meeting: Weekly;
3. Savings: Weekly @ Taka 5-10/-;
4. Age of loanee: 18-55 years;
5. Loan amount: Taka 1,000-30,000/-;
6. Loan refund period: 12-50 weekly installments;
7. Service charge: 12-15%;
8. Recovery rate: 95- 100%;

## **7.10 Analysis of Case studies**

### **7.10.1 Rafeza Begum**

Rafeza Begum, Husband-Md. Haider Ali of Khulna District, was a day labourer. She could not managed daily necessary foods for her family. Rafeza became a member of an NGO named “BANOPHUL”. She received first loan of Taka 2,000/- to purchase an old Van. Her husband Haider maintained the family and repaid the loan by pulling the Van. Second time, she received a loan of Taka 5,000/- to purchase a Rickshaw. She repaid the



loan from the earnings from this Rickshaw and also bought another Rickshaw. Third time, she received a loan of Taka 11,000/- to build her tin homestead. Fourth time, she received Taka 10,000/- as loan to purchase another Rickshaw which she leased out. Rafeza has one son and one daughter. The daughter reads in class eight and the son has been admitted in a school. Now, Rafeza leads a happy life with her husband and two children.

Her behaviour has changed and she has passed social barriers. Her managerial skill has developed and she leased out Rickshaws which created additional employment generation. So, Rafeza can be considered as an entrepreneur.

#### **7.10.2 Rizia Begum**

Rizia Begum, Husband-Md. Amjad Hossain of Khulna District, was a labour in a Fish Processing Company and maintained her family. Her husband was sick and unemployed. She was very unhappy with poverty. She became a member of “BANOPHUL” – an NGO in the year 2000 and she received first loan of Taka 3,000/-. Her husband started a tea stall from this money and repaid the loan. Second time, she received Taka 5,000/- as loan and opened a hotel. She herself and her elder son work in that hotel. Third and fourth time, she received loan of Taka 6,000/- and Taka 10,000/- respectively for her hotel. Rizia, her husband and two sons work in the hotel. Now, she purchased a Television, a Cassette and built a homestead and now lives in peace with her family there.

Her behaviour has changed and she has passed social barriers. She is self-employed. But her managerial skill has not developed and she could not generate additional employment generation.



### **7.10.3 Jahanara Begum**

Jahanara Begum, Husband-Md. Wazed Ali of Khulna District, is the only daughter of her parents. After her marriage she resides her husband's home. But she was in tension regarding her sick parents. She became a member of an NGO named "BANOPHUL" in the year 2000. For the first time, she received a loan of Taka 3,000/- to buy old papers for making packets. She repaid the loan from the earnings and maintains her family. Second time, she received a loan of Taka 6,000/- for making packets. Now, she is self-reliant and also bought a piece of land in which she has built a homestead and maintains her family well.

Her behaviour has changed and she has passed social barriers. She is self-employed. But her managerial skill has not developed and she could not generate additional employment generation.

### **7.10.4 Md. Nasir**

Md. Nasir, Father-Md. Hashem ali of Khulna District, received a loan of Taka 2,000/- for the first time from an NGO named "BANOPHUL" to purchase an old Van. He repaid the loan and maintains his family by pulling the Van. Second time, he received Taka 4,000/- as loan for small business. He sales vegetables in his Van and maintains his family. One of his sons now reads in class one and the other is a baby. They live in peace now.

His behaviour has changed and he has passed social barriers. he is self-employed. But his managerial skill has not developed and he could not generate additional employment generation.

#### **7.10.5 Most. Jostna**

Most. Jostna, Husband-Khokon of Khulna District, was a maidservant. She became a member of an NGO named “BANOPHUL” in the year 1996 and received a loan of Taka 4,000/- to purchase a sewing machine for her elder daughter. The daughter repaid the loan and gives financial support to the family by sewing. Second time, she received a loan of Taka 5,000/- for a Rickshaw garage and repaid the loan. Third time, she received Taka 7,000/- as loan to purchase sewing machines. At present, she and her other four employees are engaged in sewing works.

Her behaviour has changed and she has passed social barriers. She is self-employed. Her managerial skill has developed and she also engaged other four in her sewing works. So, it created additional employment generation and Jostna became an entrepreneur.

#### **7.10.6 Alo Bala**

Alo Bala, Husband-Hriday of Dinajpur District, became a member of an NGO named “BRAC”. She received first loan of Taka 3,000/- to purchase a Van in 2003. Her husband Hriday maintained the family and repaid the loan within one year by pulling the Van. Second time, she received a loan of Taka 5,000/- to purchase a cow. Third time, she received Taka 9,000/- as loan for small business. Now, Alo Bala leads a happy life.

Her behaviour has changed and she has passed social barriers. She is self-employed. But her managerial skill has not developed and she could not generate additional employment generation.

#### **7.10.7 Most. Kohinoor**

Most. Kohinoor, Husband-Md. Abdus Samad of Dinajpur District, a member of TMSS received a loan of Taka3,000/- for crushing paddy. Second time, she received a loan of Taka 5,000/- for the same purpose. Her two sons read in class six and the other son reads in class two. Now, she maintains her family well.

Her behaviour has changed and she has passed social barriers. She is self-employed. But her managerial skill has not developed and she could not generate additional employment generation.

#### **7.10.8 Majida Begum**

Majida Begum, Husband-Md. Wahab of Dinajpur District, was a day labourer. She received first loan to Taka3,000/- from TMSS and repaid the loan. Second time, she received a loan of Taka 5,000/- for crushing paddy. Now Majida lives in peace with her family.

Her behaviour has changed and she has passed social barriers. She is self-employed. But her managerial skill has not developed and she could not generate additional employment generation.

#### **7.10.9 Most. Rokeya Begum**

Most. Rokeya Begum, of Dinajpur District, became a member of Bara Baul Landless Mahila Samity in 1993. Her husband was a day labourer. He could not managed daily necessary foods for his family. She received first

loan of Taka 2,000/- and next year she received second loan of Taka 5,000/-. Next year, she received third loan of Taka 7,000/-. Before receiving loan, Rokeya had only 20 decimal of land. But now she owned 125 decimal of land. She had also three cows and four goats. Her son is a S.S.C candidate. They live in peace now.

Her behaviour has changed and she has passed social barriers. She is self-employed. But her managerial skill has not developed and she could not generate additional employment generation.

#### **7.10.10 Most. Shaheda Begum**

Most. Shaheda Begum of Dinajpur District, was a poor women. Her homestead was constructed with clay before receiving loan. But now her homestead is built by brick and she had four cows and a duck farm. She also educated her children. She is happy now.

Her behaviour has changed and she has passed social barriers. She is self-employed. But her managerial skill has not developed and she could not generate additional employment generation.

#### **7.10.11 Hosne Ara**

Hosne Ara of Dinajpur District, received first loan of Taka 5,000/- to start a small business. She received seven time loan till now. She established a rice mill and have a semi-pacca homestead. Her children have been admitted in a school. She is self reliant now.

Her behaviour has changed and she has passed social barriers. She is self-employed. But her managerial skill has not developed and she could not generate additional employment generation.

#### **7.10.12 Zarina Begum**

Zarina Begum of Dinajpur District, could not managed daily necessary foods for her family. She became a member of this Foundation and first time, she received a loan of Taka 4,000/- to buy a cow. After receiving second loan, she started a small business with her husband. She has built a semi-pacca homestead and her children to school. Now, she maintains her family well.

Her behaviour has changed and she has passed social barriers. She is self-employed. But her managerial skill has not developed and she could not generate additional employment generation.

#### **7.10.13 Shamlata**

Shamlata of Dinajpur District, received first loan of Taka 4,000- to buy a cow. She repaid this loan and have four cows now. Second time, she received loan to start a business with her husband. At present, her savings is Taka 8,661/-. They live in peace now.

Her behaviour has changed and she has passed social barriers. She is self-employed. But her managerial skill has not developed and she could not generate additional employment generation.



#### **7.10.14 Jamuna**

Jamuna of Dinajpur District, is the chairperson of an association named "East Bara Baul Samity". She received loan to buy cows. She has built a semi-pacca homestead. Her children go to school. She is now happy.

Her behaviour has changed and she has passed social barriers. She is self-employed. But her managerial skill has not developed and she could not generate additional employment generation.

#### **7.10.15 Anwara Begum**

Anwara Begum, wife of Md Uzzal Hossain, was a poor housewife at Doulatpur village of Doulatpur union at Belkuchi Upazila under Sirajganj District. Her family was needy and the predicament was common phenomenon in their family in terms of lack of education, rights to basic needs. For meeting up their regular necessities, both of them (husband & wife) were engaged to a hand loom owned by other people. Ms. Anwara always feels retiring to work in others houses since she was a girl of a rich family.

After some days, Ms. Anwara received Taka 5000 as loan from "Papiya Mohila Shamiti" administrated by South Asia Partnership-Bangladesh in consultation with her husband. She bought an embroidery machine with this amount and started her journey with the previous knowledge gathered at her parents' house. And through this way, Ms Anwara started her journey to the success. Primarily, she faced many problems including collecting raw materials, and lack of available orders, etc.

Now, Anwara living a happy life with her husband and two children. Now, she is earning Taka 15,000 to 25,000 per month from embroidery work. She is maintaining twelve machines including sewing machines and a generator. Twelve employees are being attached with her initiatives at the one end, while her husband is providing all out supports in the other. At present, Anwara received Taka 40,000 from South Asia Partnership-Bangladesh and demanding more due to her increasing demand in the society. She needs 5 machines more according to the demand of her production. She has been supplying the products to many places of the country while many young girls and women are the regular student in her plant.

Her behaviour has changed and she has passed social barriers. She is self-employed. Her managerial skill has developed and she also engaged other twelve employees in her sewing machines. So, it created additional employment generation and Anwara Begum became an entrepreneur.

### **7.11 Impact of Micro-credit on Poverty Alleviation, Sustainability and Entrepreneurial development**

The objective of micro-credit programs are to create self-employment generation to increase purchasing power, develop savings mentality capacity and bring change their overall livelihood pattern.

The impact of micro-credit on poverty alleviation and employment is positive. Before receiving micro-credit, generally one male member has to earn to maintain a big family. However, his income was not sufficient to maintain a family. Now, the women members of the family can undertake small economic activities such as vegetable cultivation at home, poultry farm and small shrimp 'gher' to increase family income. They also help there

other family members (i.e. husband, son) for involving with the income generating activities like cow and goat rearing, grocery shop, tailoring, fish cultivation, cottage industries etc. and it creates employment opportunity.

It is found that micro-credit programs of the NGOs have significant contribution to the following areas:

1. To reduce vulnerability of the group members;
2. To increase employment opportunity;
3. To increase money management capacity of the group members;
4. To increase necessary assets for the poor e.g. Rickshaw, Van, Pushcart etc.;
5. To get rid of money-lender's exploitation; and
6. To unite the poor and to take collective actions like support Government activities for instant participating different day observation.

Micro-credit has change the life style of the poor people about improvement of health, housing facilities, create opportunity and remedy of malnutrition. The poor people could upgrade their socio-economic conditions through investing money income generating activities. And moreover, micro-credit has a positive ramification on the women's status in the family. Thus micro-credit support helps the poor to be self-reliant and reducing their poverty.

It is evident from the fifteen case studies that only three have been able to create additional employment generation and they became entrepreneurs, i.e. only 0.45 percent. Here, only additional employment generation factor is considered to become an entrepreneur. So, It is found that micro-credit programs of the NGOs have significant contribution at micro level i.e. self-reliance, family based poverty reduction and sustainability. But micro-credit programs of NGOs have little contribution in entrepreneurial development.

Table-30 Shows that the incidence of poverty has been declining in Bangladesh over time, with a sharp decline between 2000 and 2005. The national head count rate of poverty measured by the upper poverty line declined from 56.6 percent in 1991-92 to 48.9 percent in 2000 and further to 40 percent in 2005. Thus poverty declined at an annual average rate of 1.9 percent during the period from 1991-92 to 2000 and at the rate of 3.6 percent during the 2000-05 period. During these periods the incidence of rural poverty declined at the rate of 1.6 percent and 3.3 percent respectively. The rate of urban poverty reduction has been higher in both periods, 2.5 percent during the period from 1991-92 to 2000 and 3.9 percent during the 2000-05 period.

Table-30 Head Count Rate (CBN) of Poverty, 1991/92 to 2005 (Percent)

Residence	Upper poverty line				Lower poverty line			
	2005	2000	1995-96	1991-92	2005	2000	1995-96	1991-92
National	40.0	48.9	50.1	56.6	25.1	34.3	35.1	41.0
Rural	43.8	52.3	54.5	58.7	28.6	37.9	39.4	43.7
Urban	28.4	35.2	27.8	42.7	14.6	20.0	13.7	23.6

Source : BBS, Household Income and Expenditure Survey 2005.



It is evident from the above, that the micro-credit program of NGOs has little contribution at macro level i.e. entrepreneurial development. For this reason, the rate of poverty reduction is low.

### **7.12 Hypothesis Revisited**

As I have already examined the micro-credit program of NGOs and its contribution to poverty alleviation, sustainability and entrepreneurial development, now it is important to revisit the proposition- "Entrepreneurial development from the grassroots level to the national level could not be achieved through micro-credit programs of NGOs in the absence of professional or skill development, savings habit, technology transfer, marketing assistance and inadequate finance and credit." - on the basis of impact of micro-credit on poverty alleviation, sustainability and entrepreneurial development so as to make it more empirical, explanatory and predictable.

First, the impacts indicate that Income Generating Program (IGP) provides micro-credit to the poorest especially women for generating additional income for their families. But this program is family based and the family members use this micro-credit. They have no training for using modern technology.

The NGOs take very little initiative for entrepreneurial development through their micro-credit program. It is the problem for sustainable poverty reduction. The NGOs could impart training to develop entrepreneurs from their group members who are using micro-credit. They should try to develop at least 10 percent as entrepreneurs from their group members. So that they



can establish new small industries and thus it will create employment opportunities for others. This will help in reducing poverty in a sustainable way; and

Second, the NGOs distribute the small loan amount in the form of cash money to their group members. If the members want to expand their projects, then they will need more money but the NGOs are not able to give them enough money according to their demands. So they will have to go to the banks for bigger loan. But they are not familiarized with the formal banking system and they will fail to get bigger loan from the banks.

From the impacts, we can predict two logical outcomes in course of entrepreneurial development which may help in reducing poverty in a sustainable way and the poverty reducing rate will be high:-

- (a) If the NGOs impart training for using micro-credit and modern technology; and
- (b) The NGOs should take initiatives to familiarize their group members with the formal banking system and it will help the borrowers to expand their projects as well as it will help them to develop as entrepreneurs.

Therefore, the above arguments convince us that the micro-credit programs of the NGOs have little contribution to entrepreneurial

development. It was earlier mentioned that only three borrowers became entrepreneurs out of fifteen of the case studies i.e. only 0.45 percent.

And, it also mentioned earlier that the poverty declined at an annual average rate of 1.9 percent during the period from 1991-92 to 2000 and at the rate of 3.6 percent during the 2000-05 periods.

From the above, field data proves that micro-credit programs of the NGOs have significant contribution to poverty reduction and sustainability at micro level but these programs have little contributions i.e. only 0.45 percent to the entrepreneurial development at micro level. So, it also proves that the contribution of micro-credit to poverty alleviation and its sustainability both at micro level and macro level is more than entrepreneurial development through micro-credit both at micro level and macro level.

## CHAPTER- 8

### MAJOR RESEARCH FINDINGS

#### 8.1 Research Findings

Micro-credit system of all types of NGOs i.e. national level, regional level and local level are almost same. Income Generating Program (IGP) provides micro-credit to the poorest women for generating additional income for their families. NGOs form groups and each group consists of 10-30 female members have not or less than 50 decimal of land and between the age of 18-50 years old. They have to attend once a week in weekly meeting. The NGOs distribute Taka 2,000-30,000/- in cash directly which is recorded in a pass book. The NGOs think that this type of Income Generating Programs are the most effective approach in eradicating poverty. The major areas of activities they have supported the loans to the group members are as follows:

- i. Prawn fish culture development program;
- ii. Poultry development program;
- iii. Fish culture development program;
- iv. Agricultural development program;
- v. Handloom and handicrafts development program;
- vi. To buy van, tempoo; and
- vii. Small trade.

There is no doubt that Income Generating Programs of NGOs are very helpful for generating additional income for the poor families. But this program is family based and the family members use this micro-credit by

using traditional techniques. They have no training for using modern technology. Their expectation level is very low. They want to increase their credit limit by Taka 1000-2000/- only.

The NGOs do not take any initiative for entrepreneurial development through their micro-credit program. This is one of the major weaknesses of Income Generating Programs of NGOs and it is the problem for poverty alleviation. The NGOs could impart training to develop entrepreneurs from their group members who are using micro-credit. They should try to develop at least 10% as entrepreneurs from their group members. So that they can establish new small industries and thus it will create employment opportunities for others of the village. This will help in reducing poverty of the village.

The other weakness of NGO micro-credit program as well as problem of poverty alleviation is that the NGOs distribute the loan amount in the form of cash money to their group members. But they do not familiarize system. If the members wants to expand their projects, then they will need more money but the NGOs will not give then enough money according to their needs. So, they will have to go to the banks for bigger loan. But they are not familiarized with the formal banking system and they will fail to get loan from the banks. For this, the NGOs should take initiative to familiarize their group members with the formal banking system. If there is any linkage system with micro-credit, it will help the borrowers to expand their projects as well as it will help to develop them as entrepreneurs. And this will create employment opportunities for the other people. Thus, the poverty of the village will reduce.

Entrepreneurial development is a must for sustainable development. Entrepreneurial development would not be possible through the existing micro-credit system of the NGOs. Without entrepreneurial development, no new small industries will be established and poverty reduction will not be possible in absence of new employment opportunities. And ultimately development will suffer and it will not sustain.

## **8.2 Micro-credit and Sustainable Poverty Alleviation**

*Bangladesh is one of the least developing and poverty affected countries. Since independence all development efforts addressed solutions to socio-economic problems of the country. The people of Bangladesh suffer from extreme poverty. A large part of the population is living in conditions that are not acceptable.*

When the colonial government introduced rural credit projects to Bengal at the close of the nineteenth century its intentions were moral and didactic rather than financial. It aimed to use credit to rescue the poor from the exploitation of the moneylender to rehabilitate farmers in the wake of natural disasters, to promote cooperation between villagers, and to teach people the virtues of thrift. Similarly, the cooperatives and the state-owned banks of the 1950s and 1960s aimed to promote modern agricultural technology through collective farming or advanced technology rather than provide rural financial services.

In the mid-1970s, a new type of rural credit project was developed in Bangladesh, which is called micro-credit. Micro-credit is a collateral free small loan. Which helps the poor to engage in productive activities or grow their small businesses. But micro-credit has also non-financial aims, which includes old ones like rescuing the poor from moneylenders and 'organizing'



the poor and new ones such as alleviating or even eradicating poverty, and empowering women. The new beliefs are in the power of group formation and peer pressure to guarantee loan repayment and the power of borrowed capital to cause the poor to start up new and small but profitable off-farm businesses.

Poverty and indebtedness go hand in hand. And, as such, the poverty of our poor people compels them to borrow; the existing burden of debts compels them to remain poor. Thus, rural debt has been a hereditary burden on the poor of Bangladesh.

The micro-credit program has been able to create opportunity for employment because micro-credit organizations disburse initial loans of Tk. 2,000 to Tk. 4,000 to members. This amount able to create only partial employment for the borrowing families. Micro-credit programs mostly provide credit and financial services to poor women households. It is true that micro-credit programs started in the early 1990s which means micro-credit programs may be significantly contributing to the alleviation to poverty and macro-economic development.

The main cause of poverty is unemployment and underemployment. The philosophy of micro-credit, of course, is poverty alleviation. For the overall improvement of socio-economic condition of the people, some non-government organizations are playing a very important role and several lakhs of people have benefited from these development activities. The lifestyle of the poor has been changed and the qualities of life of low-income people have been improved due to these programs especially in the rural areas.

Micro-credit programs, by providing access to small loans to people living in poverty, have succeeded in generating productive self-employment, freeing the people from the bondage of poverty leading to their increasing participation in the mainstream economic and political processes of the society.

Micro-credit as an effective tool for poverty reduction appeared as a clear vision of commitment to serve the poor. Micro-credit program in Bangladesh has benefited the rural poor in different forms by increasing their income, reducing the risks and vulnerability of their livelihood and contributing to their social development.

The micro-credit program for income generation is designed to have effective positive impact on the socio-economic condition of its borrowers. Credit used as capital plays a vital role in creating self-employment opportunity and becomes a source of increased income. Increases in income help people meet the demand for basic human needs of food, clothes, housing, health care and education. Economically well off people are better equipped to secure themselves against poverty whereas the economically worse-off are most vulnerable to poverty.

In short, the micro-credit program for income generation is a multi dimensional aspect to improve the socio-economic status of grass roots poor communities. Economic emancipation helps reduce dependence to a great extent. Reducing poverty requires that incomes of the poor improve, or that their consumption is smoothed.

Poverty in the context of Bangladesh has been defined 'as the inability to attain a minimal standard of living'. Poverty entails lack of access to the necessities of life like food, shelter, health care and recreation. It also entails,

or is the result of, lack of access to the means of production or jobs whereby the poor could procure his necessities.

Poverty is defined as the incapability of achieving a minimum standard of living below which location of people is undesirable. The minimum standard of living is to be determined with reference to food, housing, education, medical treatment, health, security and sanitation.

Poverty is widespread in this country. The economy of Bangladesh with a large and rapidly growing population and low per capita income reveals conditions of abject poverty for the majority of the people. The task of poverty alleviation with the ultimate aim of its eradication is a challenging one.

Any strategy to reduce poverty it is a must to empower the poor, provide them with security, and create employment opportunities for them. These three elements are intimately linked. Practically poverty alleviation efforts are a very hard and troublesome job. Micro-credit is not the only solution for sustainable poverty alleviation. It could be said that a system of economic development through innovation entrepreneurship is needed.

Since the poor households are dependent traditionally on the labour market for their employment and income the status of self-employment has happened through the injection of credit in different productive activities. Self-employment supported by micro-credit has more potential for improving the asset-base of the poor than wage earned from the labour market. Creating favourable conditions for making a living through self-employment is a much more dignified way of solving the unemployment problem.

It appears that micro-credit programs have its own limitations and the overall impact is negligible. These programs seem to suffer from shortcomings. Micro-credit coverage is very small and they only target small groups of people. Sometimes the NGOs appear engaged only in money lending business. They often select vulnerable target groups in society and extend them small loans at high rates of interest and on other unfavorable terms of their own.

Poor people need financial services such as various savings schemes, consumption and investment, credit and insurance services to smooth out their household cash flow, deal with emergencies and other unforeseen requirements of cash and augment income through investment in any gainful way. Credit confined to welfare function and this approach did not allow the poor to come out from poverty trap and think of other alternatives.

It is argued that notwithstanding the positive impact at micro-level, the micro-credit could not enforce any change at macro-level in poverty alleviation. Micro-credit has some understandable limitations, as it is a very short-term loan. Micro-credit receivers need to be scaled up by offering them enterprises where rates of returns are higher. The micro-credit organizations should reform the conditions of their credit programs. Unless production is increased income will not increase. As a result, poverty eradication drive will not be successful.

The cumulative micro-credit disbursement in Bangladesh since micro-credit operations started in the 1980s till December 2002, amounted to 51, 000 crore Taka and around 3.2 crore people are beneficiaries of micro-credit operations (News today: 19.11.03). So, it is more than two decades that micro-credit program was taken up in Bangladesh in the 1980s to make small capital available to the poor people for undertaking income generation



trades. But it has become transparent by now that this colossal micro-credit disbursement of more than 51000 crore taka over the period of two decades has since failed to achieve its objective i.e. reduction of poverty and generation of new employment in the country side to meet unemployment problem of the country.

The major objective of micro-credit is to create income among poor households and thereby alleviate poverty. In this respect the question can be asked at two levels, first, whether micro-credit leads to an improvement in income and second, whether the increase in income is sufficient to lift them above the poverty level. There is also a third aspect related to the second, that is, whether poverty alleviation takes place on a sustained basis. Though most impact assessment studies examine the impact of micro-credit on income, the analysis concentrated on mainly the first question. It should be mentioned that most studies consider the total impact on growth of income and do not examine whether a redistribution of credit-fund has a redistribute impact on poverty and income of households.

If a credit system is to be successful it must be good for the borrowers as for the lender. Good repayment is not the only measure of the success of the credit system. Repayment can be accomplished under condition that may cause greater hardships to the poor. The real test of a good credit system is whether the poor is better off after having made use of it. Hence, there is a need to provide guidance, in the use of credit. What is needed now is to take up a new program, which is responsive to poverty reduction, and to replicate the programs throughout the country.



### **8.3 Entrepreneurial Development Through Micro-credit for Employment Generation**

Bangladesh is one of the least developing and poverty affected countries. Since independence all development efforts addressed solutions to socio-economic problems of the country. Poverty absolutely depends on income and income depends on employment; in the end poverty depends on employment. If possible to create employment in poverty affected people that will be able to solve poverty, this is only one way to alleviate poverty.

Unemployment and underemployment is an important reason of poverty. According to labour force survey in 1995/1996, among the educated labour force of 24.71 million the unemployment rate was about 4.4 per cent. Reducing poverty is the central development challenge in our country. The unemployment problem of the country is still alarming. Youth Development Directorate states that about 30 per cent of the total population consist of young people (male and female). It comes to 4 crore and 70 lacs of the total population.<sup>1</sup>

Each year a new workforce of 1.6 million to 2 million of young people enters the job market. Already Bangladesh suffers from combined unemployment and under employment rate of around 40 percent. Around 30 million persons are jobless or unemployed in Bangladesh. Besides, by one statistics, around 40 million populations of young people of Bangladesh are in 16 to 24 age group.

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1. *The Independent*, Free Press Limited, Dhaka, 17 January, 2003, Page – 11.

The greatest and most constant demand by the real poor in rural Bangladesh is for employment and income generating activities. The poor have very limited access to the stable sources of income required for their day to day livelihood. They continue to remain in endless poverty due to their unstable and meager income and even occasional joblessness.

The great need of the poor, then, is for the creation of new productive employment and income generating activities. What the poor really need is small Industries for their employment opportunities. However, credit NGOs, with a few noteworthy exceptions, are not responsive to this real development needs.

It is said that the hard-core poor are getting little benefit from the existing micro-credit programs; rather the people above the level are beneficiaries of micro-credit. Whatever may be said about micro-credit, it is true, it has paid attention to a class of people previously ignored by the formal banking system.

The question contains whether micro-credit lending be the means of alleviating poverty. Micro-credit institutions in Bangladesh have not been able to prove that their efforts have contributed to a significant reduction in poverty. This means the present programs of micro-credit need to be revised.

As many perceived that micro-credit is not a panacea for poverty and most micro-credit clients are condemned to continue living in a state of poverty. Alleviation of poverty through job creation is the most intractable challenge facing Bangladesh as nearly half the population lives in absolute poverty. It shows that poverty in the country reduced at a rate of 1 per cent a year in last one decade while population maintained a 1.5 per cent growth on average.

In general, without control over the access to productive resources, the poor depend on selling their labour for a livelihood. If the employment growth can be tapped, there would be increase in real wage rates and an impact on poverty reduction.

Whatever, projects and strategies are embodied for poverty reduction, unless the increases in new jobs and employment are accomplished to absorb the expanded workforce (man-power) – millions of unemployed youths, poverty reduction program of the NGOs will not succeed and will remain as a far-cry. Therefore, the pre-condition of success of poverty reduction program is to generate new jobs and employment as needed.

As such the prospects for meeting the jobs gap by increasing and creating new jobs and employment for the absorption of millions of unemployed or jobless youths of Bangladesh have become bleak. Simply by self-employment, a poor man or woman may not expect to empower himself significantly unless he or she is equipped to bear the burdens of his enterprise or service with necessary sustaining capacity, competitive skill and cash support. Government and non-government initiatives alike are very much needed to help small enterprises to get over such difficulties. Special policy frame work for micro credit programs, marketing mechanism and human resource development designed to build a competitive edge for small enterprises, both in the rural and the urban sectors of the economy, is needed.

It is crucial to ensure that poverty alleviation is not blindly pursued as a goal in itself but there should be the appropriate balance with creation of jobs that can reach the poor. Micro-level or targeted anti-poverty or special employment generation programs can be a basic element in the integrated approach to reduce poverty, as because the poor are so vulnerable and disadvantaged in our society that they cannot be expected to compete on an

equal footing with other established groups in the mainstream sectoral programs. To introduce effectively a pro-poor perspective into an integrated approach to employment generation and poverty reduction and to ensure that integrated approach also leads to the empowerment of the poor.

The capital of the poor is their capacity for work. But, if they are to participate in society's value-added process, they must have the chance to work. Any policy aimed at poverty reduction must be oriented on work, create jobs and promote labour-intensive projects.

In view of above, policy must therefore, first of all aim at promoting labour-intensive production, which is particularly possible in small and medium-sized enterprises.

The NGOs should devise ways and means to meet the challenges of poverty and widespread unemployment of one country with whatever resources we have of our disposal. Hence, reality suggests that the bulk of jobs and employment needed to meet jobs gap and challenge of unemployment of the country will have to be generated through the efforts of ourselves, using and employing our own scarce capital and other resources efficiently in the greater interest of economic emancipation of Bangladesh. and that alone can bring salvation from poverty and unemployment for Bangladesh in the true sense. Because, unemployment, both rural and urban, is responsible for the destitution and poverty of more than 50 percent population of Bangladesh, and can be identified as the single hindrance on the way of poverty reduction of the country.

The success of micro-credit programs depends on creation of more jobs, skill development of marketing facilities etc. Some people are not interested in self-employment creation. They prefer job. Each entrepreneur is



employing the hardcore poor who are not willing to involve in self-employment creation.

Promoting small and medium sized enterprises (SMEs) is considered a useful tool for poverty alleviation. SMEs can play the same role in our country as well in creating jobs. They cannot only significantly contribute to poverty alleviation. Many of the problems in our society today can be resolved through creating jobs for our younger generation.

Entrepreneurship is not inherently a respectable culture in Bangladesh as yet. The Bangladeshi entrepreneurs still prefer a quick profit from commerce to gains from sustained growth of production and services, but it is heartening to note that the number is growing less with the pressure of being competitive. The basic output from the small entrepreneur programs is: (1) To create self and paid employment for rural and urban areas for the poor entrepreneur, and (2) To create a favourable climate for increasing investment.

Experienced micro-finance organizations should take responsibility to cover entrepreneur groups, open window learning from the micro-finance experience and issue collateral free loans to them. A small, cottage and micro industry is an important employment generating activity. Agro-based industries including fancy products, both traditional and non-traditional, offer significant scope of self-employment as well as units of employment. However, it is true that Small Scale Industries (SSIs) constitute an important subsection of the economy.

It can be said that small industries can play a very important role in the economy of Bangladesh in respect of creating employment and output, value added income generation and poverty alleviation.



Micro-credit operation in our country can be made a substantial credit program in the rural areas for boosting rural enterprise development for poverty alleviation.

Large-scale industrialization cannot be possible in our economy. This is why poverty alleviation through industrial growth as well as large-scale employment generation is heavily dependent on the development and expansion of small and medium scale enterprises (SMEs).

An entrepreneur is a business leader who has the capability of availing opportunities for successful introduction of new products, new techniques and procedures, new strategies and new source of demand and supply and to assemble the necessary plant and equipment, put forward modern management and labour force and organize them into a working concern.

But Bangladesh lacks entrepreneurs because they have insufficient money. The earliest entrepreneurs were men who worked with their hands, whose innovations were in the filed technology and who in their majority came from the lower class. In modern world, the entrepreneur many be a highly educated expert in particular fields, trained and skilled persons in respect of technology as per the demand of the consumer or he may be an illiterate person possessing high business and commercial knowledge ever alert to new opportunities.

The function of the entrepreneur is to undertake risk and uncertainty for starting a new business. Whatever may be the status of the entrepreneurs, he is the center of any business enterprise like the heart of a human body, for without him the wheels of industry cannot run in the economy. In fact, the entrepreneur supplies funds and resources although it may be loaned from commercial and industrial banks, supervises and coordinates production resources and plans, innovates and takes ultimate major decisions.

In a small industry, the entrepreneur himself may perform the above functions. He puts his property to the risks of the business and participates fully and often constantly in the actual manufacturing process.

Those poor who are working stable or growing economics, who have demonstrated an ability to undertake the proposed activities in an entrepreneurial manner, and who have demonstrated a commitment to repay their debts, are the best candidates for micro-credit. Income generation from small business helps not only the business activity expand but also benefits for employment to the poor.

In Bangladesh, with the passage of time and experience, rural micro-credit and micro-credit for hardcore poor has now indicated new dimension for micro-credit for micro-enterprise. Micro-credit facilities have encouraged employment creation, made provision for income generating activities, and developed an urge for qualitative improvement in the life style leading to social investments.

It is necessary to look at the problem of our poverty and employment from a macro-perspective. Although poverty reduction is an overriding objective in Bangladesh, concern for the poor has been expressed mainly through special employment creation schemes, aimed at specific target groups.

The only successful growth strategy known for countries like Bangladesh are entrepreneurial development through micro-credit and establishment of SMEs for job creation. It is the path for poverty reduction. Small business creates large employment, and more wealth in comparison to large business.

Creating self-employment is the best option for Bangladesh to end poverty, empowering the poor and ensuring food security through micro enterprises. Micro enterprises can be the engine of growth for Bangladesh which has to go a long way in creating job opportunities. The NGOs are providing help to micro, medium and big industries but entrepreneurship development program is yet to receive any support from them.

Considering all these factors, the NGOs should take necessary initiatives to encourage entrepreneurship. The NGOs should provide all facilities to the real entrepreneurs and should do its best to develop entrepreneurship.

The NGOs should adopt programs to encourage the local investors to set up small industries and service oriented establishment in the country for absorbing the unemployed people. Facilities and environments have to be ensured for creation of employment opportunities of any cost. They must think about advancing loans to low income groups on low interest basis for income generation. Such loans enable people to start micro enterprises in rural areas.

The efforts in promoting micro-enterprise as one of the most effective ways to alleviate poverty.

#### **8.4 Need for Linkage between Micro-credit of NGOs and Formal Banking System for Entrepreneurial Development as well as Sustainable Development**

Poverty is essentially a problem of inadequate capital and poor access to the formal banking facilities. It needs no elaboration that banks are pillars of the financial system of a country. The banks are still the major source of credit.

Credit and financial services to the poor households do not have access to the conventional financial institutions because of their formalities, collateral, delay delivery mechanism and some times undue demands. Among the various infrastructure amenities of rural development, banking facility is one of the essential conditions for further rural economic growth. Rural informal lending still meet as much as two-thirds of the rural credit needs.

SMEs in country like ours suffer from many constraints. Important amongst them are shortage of credit and resources, lack of training and information, managerial, marketing and technological capability etc. For all these reasons, efforts should be made to enhance and build their capacity. For nearly fifty years, the people of Bangladesh had the opportunity, even if not in full, to develop entrepreneur-ship. Unfortunately, it has not developed with desired momentum till the recent decade.

One of the biggest hurdles to the sustenance and expansion of small and cottage industries has been and continues to be the paucity of market credit from domestic trade and lack of banking credit for production as well



as marketing. With their meager resource base, the small and cottage industries are almost perpetually starved of working capital.

Adequate capital and credit are necessary conditions for entrepreneurial development. Public banks, private banks and the small channels of institutional credit beyond their reach.

The fact is that borrowers exercise very little control over the size or timing of their loans which are disbursed and sized according to a set sequence means that loans may not be appropriate to the borrower's particular project of-the-moment, and considerable ingenuity and some cost may be involved in crafting the loan into something useful. Loan size can be another problem. Sometimes the loan available is too small for the intended purpose and has to be stored until other funds can be got. The more or less automatic loan sizing system under which loan sizes increase by 1,000 Taka each year also pushes some borrowers into accepting larger loans than they can profitably use.

Banks usually deem the poor non-creditworthy and other moneylenders often charge exorbitant interest rates. The slow growth of entrepreneurs in Bangladesh, is cause of non-availability of money. To facilitate this process financial institutions like the saving banks, dealers and commercial banks are required. Commercial banks demand assets and collateral to secure loans, if they consider loaning money at all. For this the poor have limited access to credit.

Micro-credit or small credit is intended to meet monetary needs on small scale for small income generation of poor people on a short-term basis, and that cannot meet their socio-economic demands of life and help them out of poverty. Although, micro-credit program has helped our poor peasantry



and land less people to keep their body and soul together in times of their needs and crisis. Credit is a powerful entry-point for reduction of poverty. Credit helps the poor to fight poverty with their own efforts.

Collateral free credit was a dream for the poor the poor could not borrow from commercial banks, because they lacked collateral. Money lenders used to provide them with credit at 100 – 120% interest annually, which prompted the poor themselves to choose credit as the main means of poverty alleviation.

Though it is said that micro-credit was always a part of banks lending system it was hardly practiced in the past. Moneylenders advanced macro-credit to the villagers at very high interest rates, generally without collateral but the recovery method was oppressive.

The present micro-credit facilities have apparently reached only a limited percentage of the poor. A big majority is still without support. It is evident that despite the considerable efforts of the NGOs, there has been no appreciable improvement in the general poverty situation in Bangladesh. Moreover, the present micro-credit have not yet covered a large percentage of the poorest of the poor as they probably do not enjoy the support of the village inner groups that form a part of the micro-credit decision making process of some NGOs. Thus a national initiative with full support of the people with financial means can effectively work towards alleviation of poverty in Bangladesh.

Entrepreneurial development can create more employment opportunities for the very poor. During the last two decades most of the NGOs in Bangladesh are providing financial and other services to the poor people of the country through micro finance program. As a result, economic capabilities of the poor have increased to a certain extent. This can be done

through promoting small enterprises and creating greater employment opportunities. NGOs should be mindful about the following unmet needs: -

1. Providing marketing assistance to the entrepreneurs.
2. Providing technical assistance.
3. Organizing training on entrepreneurship development, new business creation, small business planning, marketing for small business, salesmanship etc.

*Small size of loan inhibited the growth of employment for the hard core poor who are assumed to be non-entrepreneurial and who could work in micro-industries developed large borrowers.*

Access to credit for the poor on a long term and sustainable basis can bring significant benefits. Micro-Finance Institutions must continue to work to improve efficiency levels, and to increase scale.

The lack of physical collateral restricts the poor to the formal sources of finance. The informal sector's loans are often available, but their high interest rates block the access of the rural poor women into that market.

Unlike formal lending agencies, micro-finance institutions give collateral free credit to poor people to help them get out of the poverty trap. Micro-finance bodies give loans with practically no paper work. Poor people are reluctant to go the doorsteps of banks in fear of paper work.

Still, micro-finance practitioners face challenges. The gap between the supply and demand remains wide. More people need access to micro-finance yet micro-finance institutions reach only a few people. The micro-credit program alone will not help to bring about any sustainable achievement in alleviating poverty.

The micro-credit programs had proved that the poor are worthy of credit and there was no need for collateral for it. There was a big demand for

micro-credit and the poor had enormous energy and creativity in utilizing the money they get. This potential should be harnessed for national development. The poor, not the rich, could be the engine for development if the micro-credit program was handled in a proper way.

It is recognized that NGOs cannot operate in isolation. The banks extensive delivery mechanism has linkages, which can become a suitable instrument in reaching out to the people and thus multiply the positive impact on rural development. If the banks and the NGOs continue their activities in rural areas through different linkages, the constraints facing rural development programs can be overcome.

But due to the different nature of the banking sector, banks are not capable of solving the problem of the poor. The banking sector needs collateral for lending. Banks operate in a different manner, which is not friendly to the poor and illiterate.

In this scenario, poor people are not getting expected benefit from the formal financial sector. The banks operate purely on commercial motive. On the other hand, the mind-set of NGOs guides them to work particularly on social development perspective, not on commercial objectives. The banking culture is something alien to the vision and mission of micro finance NGOs. By and large, people from all sections have access to banks while the poor only have access to the micro finance (MF) programs. The poor people who are enlisted in the MF programs are popularly called members and are well defined in terms of socio-economic strata. The micro-finance programs constitute nearly 85 per cent women.

The central bank may take steps to formulate a policy so that the commercial banks earmark a certain portion of their loanable funds for NGOs as cheaper loans to enable the potential smaller NGOs to cover their

initial investment needs. When they will attain operational sufficiency or near financial sustainability, they may not be given such loans other than at market rates. This type of assistance should be continued till much time the industry has grown.

Banking sector is rapidly spreading but the clients and depositors are not so increasing due to lack of entrepreneur-ship and unemployment. Banks should encourage the clients to increase the volume of business so that men, materials and money are properly allocated and employed.

Poverty alleviation can not be handled in an isolated fashion. the complicity and multi-disciplinary nature of the job demands collaboration between agencies engaged in reaching the poor. If quality of services is to be improved, multitude of the poor are to be reached.

The central bank and the commercial and private banks could play dominant role in promoting the expansion of credit to the needy for carrying out economic activities. The banks can play a great role in promoting micro-credit among the poor. There is a strong need for linking micro-credit activities with the overall macro economic framework of the country to achieve a sustainable level of poverty alleviation.

The two-way link between the bigger and the smaller activities within the economy and their increasing interactions will accelerate the pace of nations socio-economic development.

Efforts of small farmers and other entrepreneurs interested to set up such ventures have always been handicapped due to inadequacy of fund and other support services.



NGO experience proves that collateral is not necessary to secure loan repayment, Mutual understanding, trust, collective responsibility and unity among themselves is the best collateral. Poor borrowers are efficiently capable of proper utilization of micro-credit funds and they have the capacity, skill and knowledge to implement income generation programs. They are very serious and timely about repaying loan installment.

The rationale for linking banks with NGOs is helpful for uplift of the rural poor. Both banks and NGOs can significantly enhance the effective flow of financial resources to the poor if the linkages are well designed and structured. It is observed that the smaller NGOs with their institutional mechanism and capacity building are not capable of establishing linkages with banks. There are many reasons for this. Presently only the established NGOs have been able to establish linkages with banks on a limited scale and most of the schemes are donor based with rigid terms of references. In such a situation, some steps in order to linking banks with NGOs should be strengthened.



## CHAPTER- 9

### CONCLUSIONS AND POLICY RECOMMENDATIONS

#### 9.1 Conclusions

From the research findings of chapter-8, it can be said that many factors are involved in poverty alleviation, sustainability and entrepreneurial development. But here lies some problems to develop micro-credit borrowers as entrepreneurs.

Though it is said that micro-credit was always a part of bank's lending system it was hardly practiced in the past. Informal Micro-credit Institutions have, however been in existence in Bangladesh for ages. Moneylenders advanced micro-credit to the villagers at very high interest rates, generally without collateral but the recovery method was oppressive.

The innovative micro-credit schemes in Bangladesh have the objective of directly attacking poverty through providing credit and organizational help to the poor, who had otherwise been deprived of the access to institutional credit because of the lack of physical collateral. The new type of banking for the poor has converted the poverty sector programs from conventional supply dominated ones into those with more efficient demand based pattern of operation. Micro-credit schemes under such banking provide collateral free credit to vastly unemployed rural population so that they can engage themselves in various kinds of livelihoods and trades. The schemes use credit delivery mechanisms that are acceptable to the common, generally illiterate rural poor, are not very cumbersome and ensure participation of the borrower community in different stages of the credit cycle. The innovations in the micro-credit schemes lie in almost every aspect of their planning, designing, implementation, monitoring and

evaluation. In a sense, they operate as “banks taken to the doorsteps of the poor” and the program staff constantly work with the clients, assess their needs and skills, assist them in formulating loan proposals and in making the loans available to them and also in the process of utilization of the loans.

The borrowers of all the rural credit schemes are organized in groups and associations of groups (centres, cooperatives, village organizations, etc.). The groups and their associations are used as platforms, where the borrowers discuss problems and issues relating to credit requirements and use of the credit they receive as well as matters of personal and collective life that promote overall development of the community through mutual help.

The principle of group based lending is used by the lending institution as a means of credit wholesaling, which reduces the cost of credit delivery and recovery. The borrower organizations also operate as the field outreach of the lending agencies for conducting the motivation and training work and for implementing the programs of social development and empowerment of the poor. More importantly, the group based lending is offered because, the individual's access to credit is linked to the group's repayment behaviour and it has generally been made a condition that in case any of the group members fails to make repayments on time, other members of the group will not be given further loans.

The advantages of group based lending therefor, may be summed up as follows:

- a. it reduces lender loan transaction costs;
- b. joint liability for the loans creates internal group pressure for repayment and thus reduces the incidence of default;
- c. borrowing in groups reduces average borrower transaction costs;

- d. groups can operate as vehicle for making other services available (extension and technical training); and
- e. groups can be used as foundation stones for further development of local structures.

The micro-credit schemes incorporated innovative features in identification and selection of the borrowers, organization of them into groups and centers, processing and approval of loan applications, providing the extension and support services, recovery of loan and interest, mobilization of savings by the borrowers, conducting social development campaign, monitoring and evaluation of the loan use and assessment of the impact and output.

The innovative approaches, as tested in the field by various organizations, demonstrated that it is possible to develop viable financial systems in a rural credit market no matter how it is affected by market imperfections and to what extent it bears the production and other risks. The most important evidence is probably the exceptionally high recovery rate (between 95 and 98%), particularly when the loan recovery rates of commercial banks in Bangladesh, accounted with the amounts recovered after the due dates, is as low as 45% only.

Apart from a high recovery rate, the micro-credit schemes have relatively low drop-out rates in their clientele groups and are more or less successful in augmenting self-employment of the poor and increasing their income. The employment and income benefits however, accrue more to the relatively richer among the poor, since they get the larger share of the credit.

These schemes appear to succeed in accumulating fairly large amount

of savings and are sustainable in terms of financial, economic and organizational viability.

Special features of the innovative micro-credit schemes for the poor are :

- a. explicit targeting of the poor (and for many organizations, the poor women);
- b. self-selection of the borrowers;
- c. organization of borrowers in groups and centres, which have elected management and which tackle the problems of asymmetric information and imperfect empowerment through mutual exchanges in regular weekly meetings;
- d. small, but repeat loans;
- e. transparency in transactions and a strong fiscal control and accountability;
- f. field monitoring by regular supervision by the staff of the lending institutions;
- g. repayment on weekly basis;
- h. enforcement of borrowers' savings and insurance against non-repayment risks;
- i. integration of credit services with social development campaign; and
- j. responsiveness to field, to opportunities and resources.

The micro-credit schemes however, would have been very weak in terms of institutional viability, had there been no external funding support from government or donor agencies. Further, from the available evidences,



no conclusive judgement can yet be made on whether the borrowers get from the schemes enough benefits, which are sustainable, or whether due to the operation of these schemes, the poor now have a better community to live in.

The benefits accrued by the borrowers of the micro-credit schemes are both economic and non-economic. The main focus of economic benefits is on 'control over assets', 'control and management of self-employment and income generating activities' and 'access to relationship with market'. For non-economic benefits, the main focus is on 'awareness about self-identity, children, education, community health etc', 'working in groups', 'exposure to society' and 'development of a spirit of collective activities'.

NGOs are more effective in reaching the rural poor, particularly the poor women and also in delivering useful services in job creation, education, health, family planning and nutrition. Leaders in social development work and the donor community have long been urging the government of Bangladesh to cooperate with the NGOs in efforts towards poverty alleviation and the trend was already intensive in mid eighties. But the government of Bangladesh has only recently recognized the importance of cooperation with the NGOs, which emphasize that they are still searching for a mechanism for this cooperation.. The NGOs find the urgent government regulatory framework not very convenient even for their normal functioning and they seem to concentrate their activities in removing three major barriers for the poor-lack of skill, lack of confidence and lack of capital.

The NGO credit system and the public sector micro-credit schemes that follow the GB type of credit delivery mechanism not only provide capital to the poor in the form of micro-credit, but also



- a. develop the skill of the poor through formal training as well as functional and vocational education and a process of learning by doing; and
- b. develop the confidence of the rural poor through their working in groups, motivation campaign and a process of participatory decision making and leadership development.

Micro-credit schemes theoretically differ among themselves in their credit delivery mechanisms but over years of practice, the differences have been minimized and the programs demonstrated a move towards some middle position. For example, BRAC has moved closer to GB by cutting down the length of preloan instruction period for borrowers and adopting some of the loan eligibility criteria and procedures pioneered by GB. Most organizations now have similar small groups of program beneficiaries federated into centres and practice more or less similar loan terms including interest rates, forced savings, repayment period, modes of repayment etc.

Micro-credit schemes in Bangladesh get financial support by large number of donor agencies, which now operate with changed philosophies in their home countries and encourage business deals rather than charity functions and prefer creating a stream of economic activity instead of responding to mere grant seeking. Micro-credit activities spread all over Bangladesh with this support appear to be effective in terms of loan recovery rate, but the group based delivery mechanism, which only ensures a cost saving credit wholesaling, does not seem to result in achieving the social development agenda. Groups are hardly found to be 'empowered' or have developed new and multi-supportive ways of working together. It can only be expected in theory that in groups, the members may become more aware

of their own problems, have a tool to unite in homogeneous class and interest clusters and increase their capability to secure their legal and civil rights. The issue has not yet been well researched, but it had so far been observed that group formation does not encourage solidarity among the poor, nor does it lead to a movement towards class action or co-operative self-help endeavours.

The strategy of using groups as 'social collateral' for loans has so far been identified as the technique that makes group based lending different from conventional banking and that allows to achieve high recovery rates. But the technique has not been proved to be foolproof. Making one member's access to loans depend upon the repayment performance of his peers often operates in a direction that unperforming members are pushed out of groups by the fellow members and groups fall apart, the possibility of which, in turn, induces the program field staff to exclude the needy poor from borrower groups from the very outset. Thus the uncollateralised loans ultimately sabotage the main objective of serving the very poor. Also, the four important innovations of the micro-credit schemes viz., the five-person group, the multi-group centre, the social collateral and weekly repayments of capital over one year, appear to be just imposed on borrowers in order to direct and limit the repayment behaviour and ironically, cannot be considered as responses to the needs of the poor.

Despite the facts that the micro-credit schemes do not effectively reach the bottom poor and the full advantages of group based lending are yet to be realized, the experiments with banking with the poor may in general, be graded as successful at least because, a section of the poor is well served with credit, while others are becoming aware of the availability of credit and the poor as whole are getting familiar with rural credit and savings systems,

the financial transactions and the techniques and skills of carrying out livelihoods/ trades for income generation through self –employment. All these pave ways towards economic empowerment of the poor, which is considered by many as the prime mover that successively brings about their social empowerment and the overall socio-economic development. This particular logic justifies that

- a. the donors may feel encouraged to continue funding the micro-credit schemes in Bangladesh;
- b. the government of Bangladesh should continue replicating GB type of micro-credit schemes, preferably through extending adequate support to NGOs; and
- c. the micro-credit schemes require closer monitoring for being executed with better efficiency.

The intra-and inter organizational analyses of the micro-credit schemes

that operate in Bangladesh reveal that the innovative micro-credit schemes have turned about the conventional principles of (a) banks staying in one place and customers commit to it, (b) lending against physical collateral, (c) treating money and banking as the domain of men and (d) carrying out the poverty alleviation job as merely charitable, non-profit venture. These schemes, as they operate now in Bangladesh, have successfully introduced such systems that (a) the banks/ lending institutions go and reach out to the people, (b) loans are sanctioned and disbursed without physical collateral, (c) the women are equally eligible, if not better borrower groups and (d) credit for poverty alleviation is made available on commercial basis, where the recipients of credit service are ‘customers’ rather than ‘beneficiaries’. But the

credit delivery mechanism, as now practised in the field, still appears to be improved in many aspects.

The research findings show that there is a relationship among micro-credit and poverty alleviation, sustainability and entrepreneurial development. But the findings also indicates that there are barriers of behavioural, managerial and social as well as incapacity to create additional employment opportunities with existing system of micro-credit operation.

From the above discussion we can summarize the weaknesses of micro-credit system as under:

1. Four groups of rural people are served by the programs : people running small trades or business, small and marginal farmers, landless day labourers and the extremely poor. But in the practice of work, the priorities of the programs are the first two groups only. A part of the day labourers may be lucky to be included among beneficiaries but a vast majority of them and the extreme poor are virtually ignored. It should therefore be a matter of strategy for the micro-credit schemes to decide who to serve, particularly because, not all schemes may find it equally effective to work with all these groups of poor people. But the issue that deserves attention is that the small traders or small farmers have easy access to a large variety of sources of institutional credit and, if poverty alleviation is the objective, the micro-credit agencies are yet to find ways for reaching the very poor.

2. Targeting the very poor, i.e., working with the landless day labourers and the extreme poor will require a better understanding of the complexities of dealing with them. Unfortunately, there is hardly any short-cut way of achieving this and the agencies and organizations can learn to do so through



a continuous process of improving the targeting in practical work experience as well as in training courses and workshops organized by such agencies themselves. The government and donor may find organization of such for a very useful in promoting this learning process and also many other aspects of micro-credit delivery schemes.

3. Some of the organizations specially identify the unemployed youth or women as exclusive target groups. Some prefer formation of beneficiary groups with only the members of the same family or very close relatives, while some others incline to form groups with people not belonging to the same family. The experience of more than 15 years of operation of the micro-credit schemes in Bangladesh suggests that none of these special approaches work in practice and it is probably wise for a micro-credit scheme for the poor to form beneficiary groups on the basis of not the age or relationship ties, but the commonness of the loan use purposes and homogeneity in interests or socio-economic status. This will solve the problem of tensions that exist when people with different interests have to accept identical loan terms and are required to act together in many aspects, including policing of each others repayment behaviour. But in the context of socio-cultural environment in Bangladesh, the micro-credit schemes may think of promoting more women- only groups and centres, where women's needs are best served and the women can more freely come forward with explicit initiatives.

4. Organizers of micro-credit schemes in Bangladesh rightly consider that providing the poor with credit only is not enough for taking them out of the poverty trap and making them dignified members of the community. A



self-propelling growth of the rural community requires 'awareness building', 'conscientization', 'community development', 'empowerment of the poor' and the like. But assigning these functions to the field staff of credit programs appears to be highly unproductive as they often remain heavily loaded with the credit delivery functions and the work relating to training and motivation of the members in effectively using the loans. Micro-credit organizations may use the groups and centres for credit as field outreach for the delivery of community development services with separate group of staff under separate programs for each type of the community or social development activities. An alternative may be the concentration of a program on credit delivery only and allowing its field outreach to be used by government agencies and NGOs specially engaged in providing inputs and extension services in the areas of health, sanitation, education, family planning, social forestry etc.

5. Large micro-credit agencies had developed the system of providing different size loans depending upon the purposes like housing, plantation, dairy farming, construction of cold storage etc, under varied loan terms and conditions. But all the micro-credit schemes provide general loans to different groups of borrowers under the same terms and conditions. The loan size, interest rate, repayment schedules, provisions for repeat loans etc, are the same for all borrowers of the general loans. The membership of borrowers is also retained until the end of loan period. But even the borrowers of general loans may have demands of varied loan size and for extended periods, may like to repay loans earlier and to leave the center, may have made investments of relatively longer gestation period and therefore, may not find the weekly repayment schedule very convenient etc., and

further, many borrowers may be given loans not at the time when they require them . Thus, it is desirable that the micro-credit agencies fix differentiated loan terms to suit the needs of the varied groups of borrowers, preferably organized in separate centres. This means that the micro-credit agencies should lift the limit of years of successive loans per member, introduce varied repayment schedules for different types of members, allow members to repay at times (within the loan period) when they decide to do so, disburse loans at times when the borrowers find it suitable and count the loan period from the time of disbursement.

6. Micro-credit organizations have succeeded in generating funds through mobilizing savings of the members, but they do not actually provide savings services to the poor since (a) in most cases, interest is not paid on individual and group savings of the members, (b) members cannot accumulate savings at times and at rates that they find convenient for them, and (c) the individuals can go on saving according to lenders' design so long as they remain in the membership roll. It is therefore, required that all micro-credit agencies should provide better savings services to their members through paying interest on savings, allowing them to continue savings with the organizations even when they no longer seek loans and encouraging formation of their savings associations.

7. The supervision, monitoring and evaluation activities of micro-credit agencies appear to concentrate heavily on the loan recovery aspect. Little effort has so far been given to supervise, monitor and evaluate staff behaviour and performance, their work environment, institutional development and the efficiency of systems and procedures. The least has been done in evaluation of program output and the sustainability of program

benefits. The schemes should upgrade their monitoring and evaluation systems through (a) carefully designed MIS that will take care of the missing links and (b) sharing monitoring and evaluation work between a micro-credit agency concerned and a number of private research organizations and individuals and / or introducing a reciprocal supervision.

8. Some micro-credit schemes operate on the basis of maximum initiatives at lower levels and delegate authority to the lowest practical levels. But many others practice a centralized administration loading field staff with too much of responsibility but very little authority. But providing more autonomy to field units and making them accountable for their own activities may yield better performance because, the authority they will exercise will inspire them to take initiative and bear responsibility. This is specifically important, when the field level units are treated as profit centres and require to recycle credit fund, use the savings of the members and the interest earnings for being extended as credit, make inter branch transfers of funds and staff at emergency periods or procure minor items.

9. The expansion strategy of micro-credit schemes in Bangladesh do not follow any specific principle or pattern. Most of them do not have plans for phased out expansion, placement of funds or deployment of staff. Further, the selection of new operation areas or establishment of new branches of the micro-credit organizations follow a scattered pattern, which reduces the opportunity of contact between staff, raises the cost of management and supervision, makes the program impact very small in a particular district or even Upazilas and deprives the staff and members of feedback. It is therefore, suggested that the coverage of the schemes should grow outward from a number of nuclei, new branches should be deployed progressively

and the beneficiary organizations should be geographically concentrated rather than dispersed.

Lack of entrepreneur-ship is the prime cause of hunger and poverty. The problems of poverty and unemployment in Bangladesh can be alleviated by setting up small industries as it has the large scope for generating employment opportunities, augmenting income of the people related to it and accelerating the process of industrialization.

The present micro-credit facilities are unable to meet the demands of the entrepreneurs. Because adequate capital and credit are necessary conditions for entrepreneurial development. If the potential entrepreneurs get a adequate amount of investment, they may enhance their production. Business to a large extent is not possible without credit.

NGOs should create the necessary facilitating framework for linking micro-credit to the formal banking system. Business activities are geared up with a rapid speed with the help of banks, which would have been slower in the absence of banking facilities.

More importantly, the present micro-credit system of NGOs for poverty alleviation in Bangladesh need to be re-examined to ensure sustainability.

Extension of financial assistance to the entrepreneurs is the proper way to develop small enterprises. To create a healthy and sustainable enterprise the financial need of the project has to be rightly identified before providing funds to it. This can only be done through offering a package of services. But the absence of a viable, rural micro-credit system is a serious constraint for entrepreneurial development.

Entrepreneurial development through micro-credit is essential for alleviating of large scale poverty in the country. The present micro-credit



facilities have apparently reached only a limited percentage of the poor. A big majority is still without support. It is evident that despite the considerable efforts by Grameen Bank, BRAC and other NGOs, there has been no appreciable improvement in the general poverty situation in Bangladesh. Moreover, the present micro-credits have not yet covered a large percentage of the poorest of the poor as they probably do not enjoy the support of the village inner groups that form a part of the micro-credit decision making process of some NGOs.

There is a strong need for linking micro-credit activities with the overall macro-economic framework of the country to achieve a sustainable level of poverty alleviation. The two-way link between the bigger and the smaller activities within the economy and their increasing interactions will accelerate the pace of the nation's socio-economic development.

When efficient and cost effective micro-credit services now lacking in rural areas are made available, Bangladesh will have to create an environment that enables entrepreneur-ship, innovation and production of the rural population thereby helping growth of the entire economy. This needs a change in the present micro-credit system of the NGOs.

Micro-credit is a matter known to all strata of people from different viewpoints depending on their involvement, conviction and understanding. A micro credit is MICRO something and is exactly depends on the corroborating MACRO situation of a given economic. If the Macro environment is favorable the Micro-Credit is supposed to be success story, failing which Micro-Credit is no good for the people it is meant for.



## 9.2 Policy Recommendations

For sustainable poverty reduction and entrepreneurial development , it is essential to change the existing micro-credit system of the NGOs. So that the poor will not only be able to generate additional income for their families but they will be able to establish small industries. These new small industries will create employment opportunities for others. In this way, development will sustain and entrepreneurial development is possible through micro-credit.

For this, here below, I would like to offer some policy recommendations for improving the existing micro-credit systems of the NGOs for sustainable development:

1. *The NGOs should select potential entrepreneurs from their group members of Income Generating Programs who uses micro-credit;*
2. *The NGOs should impart training to the potential entrepreneurs from the group members so that they can establish small industries and create employment opportunities for others. NGO Affairs Bureau may take necessary actions to help the NGOs for entrepreneurial development.*
3. *The entrepreneurs will need huge money for their industries. For this, the NGOs should take initiative to familiarize the potential entrepreneurs with the formal banking system so that they can borrow money from the banks according to their need; and*
4. *There should be a linkage between micro-credit program and the formal banking system. Ministry of Finance may take necessary steps to establish this linkage.*



**Incidence Of Poverty (Head-Count Ratio)-  
Cost of Basic Needs Method, 2000**

Poverty Line and Division	Percent of Population Below Poverty Line indicated		
	National	Rural	Urban
<b>1. Using the Lower Poverty Line</b>			
National	33.7	37.4	19.1
Barisal	28.8	29.6	19.5
Chittagong	25.0	25.3	23.3
Dhaka	32.0	41.7	12.0
Khulna	35.4	36.8	27.5
Rajshahi	46.7	48.8	32.3
<b>2. Using the Upper poverty Line</b>			
National	49.8	53.1	36.6
Barisal	39.8	40.0	37.9
Chittagong	47.7	48.4	44.0
Dhaka	44.8	52.9	28.2
Khulna	51.4	52.2	47.1
Rajshahi	61.0	62.8	48.1

Source : Household Expenditure Survey, 2000, BBS.



## Rate Of Unemployment By Sex and Residence 2002-03

Age group and period	Bangladesh			Urban			Rural		
	Both Sex	Male	Female	Both Sex	Male	Female	Both Sex	Male	Female
<b>2002-03</b>									
<b>Total</b>	<b>4.3</b>	<b>4.2</b>	<b>4.9</b>	<b>5.0</b>	<b>4.6</b>	<b>6.2</b>	<b>4.1</b>	<b>4.0</b>	<b>4.4</b>
15-19	5.1	5.5	4.3	7.0	7.2	6.7	4.5	5.0	3.6
20-24	8.3	8.4	7.9	11.3	11.2	11.7	7.3	7.6	6.6
25-29	5.8	5.7	6.0	7.0	6.7	7.9	5.3	5.3	5.3
30-34	4.0	3.9	4.4	4.2	4.1	4.7	3.9	3.8	-
35+	2.6	2.5	3.4	2.4	2.1	3.4	2.7	2.6	3.4

Source : Labour Force Survey, 2002-2003, BBS.

## Questionnaire for Sample Survey

## Identity of the Respondents

<b>Name :</b>		<b>Father/Husband Name :</b>	
<b>Age:</b>	<b>Sex :</b>	<b>Occupation :</b>	<b>HH Member Literacy :</b>
<b>Address :</b>		<b>Maholla/Para :</b>	<b>Village :</b>
<b>Union :</b>		<b>Upazila :</b>	<b>District :</b>

## Socio-economic Status of the Respondent/ Household

<p><b>1. Access to Resources</b></p> <p>(a) Land (decimal) :</p> <p>(b) Business :</p> <p>(c) Service :</p> <p>(d) Credit :</p> <p>(e) Others :</p> <p><b>2. Income</b></p> <p>(a) From land :</p> <p>(b) Non-farm (Agriculture) :</p> <p>(c) Non-farm (Business) :</p> <p>(d) Service :</p> <p>(e) Others :</p> <p><b>3. Occupation / Livelihood of the household</b></p> <p>(a) Primary occupation :</p> <p>(b) Secondary occupation :</p> <p>(c) Tertiary occupation :</p> <p><b>4. Education (HH)</b></p> <p>(a) Illiterate :</p> <p>(b) Primary :</p> <p>(c) Secondary :</p> <p>(d) HSC :</p> <p>(e) Bachelor and above :</p>
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