

PhD Dissertation

The Microfinance Initiatives for Poverty Alleviation: Rhetoric and Reality in Bangladesh

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STRUCTURE OF THE DISSERTATION

Chapter	Title
1 :	Introduction
2 :	Literature review, conceptual framework and research design
3 :	Poverty alleviation approaches in Bangladesh
4 :	Rural financial markets and microfinance programs in Bangladesh
5 :	Basic information on respondents and study areas
6 :	Impact of microfinance program on poverty and vulnerability
7 :	Microcredit interest rate: Institutional sustainability Vs borrowers' graduation
8 :	Women's empowerment and microfinance programs
9 :	Prospects and challenges of Islamic microfinance programs
10 :	Summary, conclusion and recommendations

Background

- Bangladesh is the world's most densely populated country
 - per capita income US\$750.
 - 38% of population live below poverty line
 - 18.7% are hardcore poor
 - \cong 90% of their income spend on food.
- Poor had no or little access to the institutional credit.
- Microfinance institutions (MFIs) emerged to provide affordable credit for the poor.

Microfinance Statistics in Bangladesh

➤ Number of NGO-MFIs working in Bangladesh (April 21, 2010)

- ✓ **NGO Affairs Bureau** : 2418 NGOs
- ✓ **Department of Social Welfare** : 55,000
- ✓ **Department of Cooperatives** : 152,000
- ✓ **Office of the Registrar, Joint Stock Companies & Firms** : 10,000
- ✓ **Microcredit Regulatory Authority** : 494
- ✓ **Department of Women and Children Affairs** : 16,030
- ✓ **Department of Youth Development** : 100,000

➤ Not only NGOs but also government agencies providing microcredit services.

➤ **Up to June 2009,**

✓ Active MFI members was 25.8 million of which 85% women

✓ Cumulative disbursement of microcredit was US\$125.57billion.

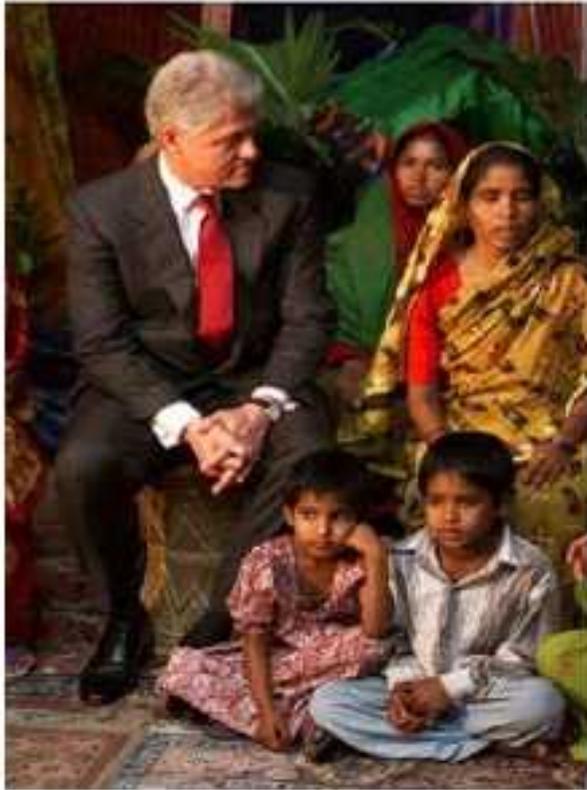
Problem Statements (1/2)

- ✓ Literature on microfinance is plentiful with views for and against an opinion.
- ✓ Many studies supported MFPs for poverty alleviation; but others opposed.

- ✓ All studies so far have been carried out
 - addressed only a specific issue of MFPs
 - with the fund from the NGO-MFIs
 - by their own consultants or research unit
 - information were provided by the MFIs or hired data enumerators.

- ✓ Number of independent studies on MFPs is very limited.
- ✓ Consequently, real situations in the fields remain unclear.

- ✓ So, It is still remain inconclusive whether it contributes to alleviate poverty.



In March 20, 2000
Momena with President
Clinton (left) and
memory of Clinton's gift
to her (right)

(Photo: William Vasta)

Successful
and
Empowered



Momena's house
made by Grameen
Bank to show as
her success in
poverty alleviation



In May 2008
Interview with Momena & her husband



April 2008



Her Toilet (!!)

Successful or
Empowered ?



Her Kitchen cum living room (!!)



Her Property (!!)

Problem Statements (2/2)

- ✓ Until recently, millions of poor have receive and used microfinance
 - ✓ It could not eliminate poverty as expected
 - ✓ Unknown timeline for poverty alleviation.
-
- ✓ So, more solid empirical research is needed addressing grassroots experiences.
-
- ✓ My research and analyses are based on direct information, observation and anecdotal evidences from the filed.

RESEARCH QUESTIONS

- × Is microfinance an effective tool for alleviation of dimensional extent of poverty?
- × Is microcredit interest rate sufficient enough for institutional sustainability with borrower's graduation?
- × To what extent MFPs can empower their women beneficiaries?
- × Is the Islamic MFP an alternative for conventional MFP in poverty alleviation?

MAIN GOAL

The main target of the study is to investigate into the effectiveness of the microfinance programs addressing dimensional issues of poverty in the agrarian economy of Bangladesh.

SPECIFIC OBJECTIVES

1. To assess the basic information of the members and non-members of the MFPs in study areas;
2. To investigate into the poverty alleviation capacity of MFPs;
3. To measure institutional sustainability of the MFIs and graduation of their beneficiaries under current interest rate;
4. To evaluate the level of women's empowerment with and without participation in the MFPs; and
5. To assess the prospects and challenges of Islamic MFPs in Bangladesh.

CHAPTER 2:

LITERATURE REVIEW, CONCEPTUAL FRAMEWORK AND RESEARCH DESIGN

Topics

2. Concepts of microcredit and microfinance
3. Research outline and analytical methods
4. Study areas
5. Reasons for selecting study areas
6. Sampling and data collection
7. Conceptual framework

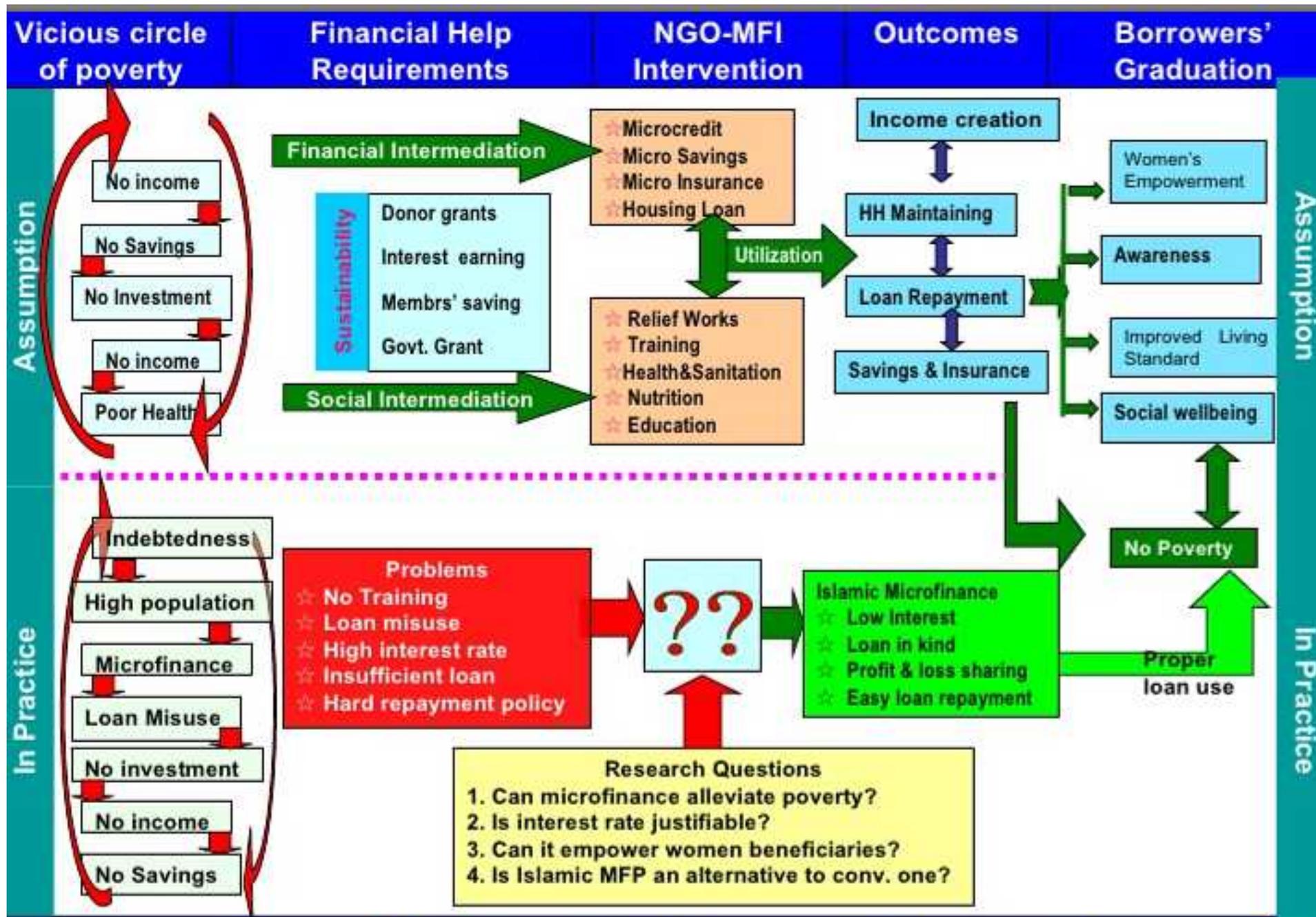


Figure 2.1: Conceptual Research Framework

KEY CONCEPTS OF MICROFINANCE

Microcredit:

- small loans (\leq US\$200) without collateral
- to very poor people, usually for women
- for self-employment projects those generate income
- allow them to care for themselves and their families.

Microfinance:

- consists of microcredit programs with social intermediations.
- includes micro-savings, micro-insurance, remittance transfers
- provides training, advice on health, nutrition, sanitation.

So, microcredit is a product of microfinance.

RESEARCH OUTLINE

Study area: Rural & sub-urban areas of Dhaka, Mymensingh, Sherpur, and Habiganj Districts in Bangladesh

Target population: Women members, branch managers/field officers of Grameen Bank, BRAC, ASA & RDS and non-member women

Sample size: 600 women members with 6 years membership;
: 100 non-members with same socio-economic status.

Data collection methods : Direct interview, phone & teleconference

Instruments: Structured and semi-structured pre-tested questionnaire

Data collection: Respondents selection & interview : May-June 2008
Teleconference : Whenever necessary throughout the year

ANALYTICAL METHOD

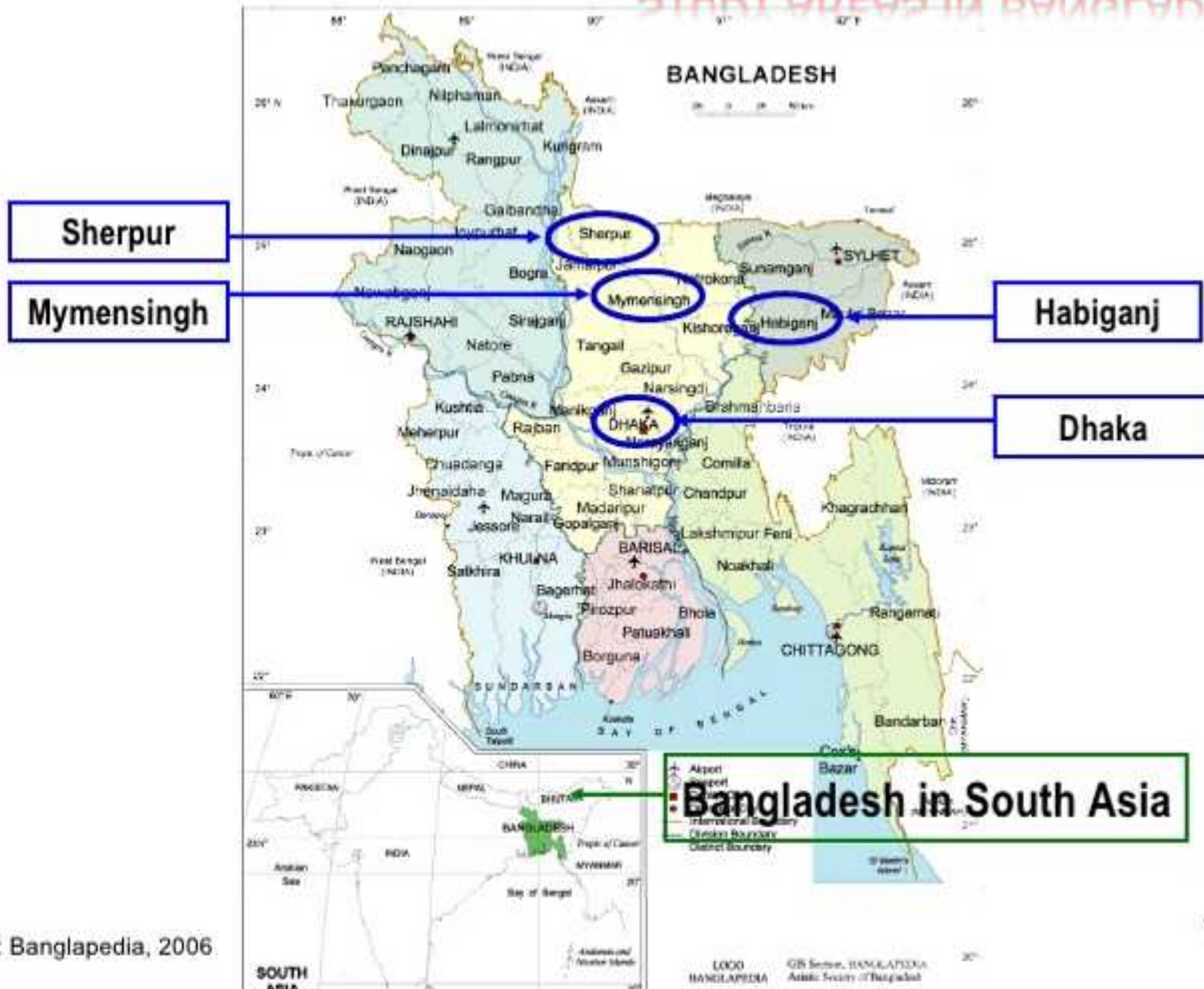
Descriptive Analysis

- ✓ Frequency
- ✓ Mean
- ✓ Standard Deviation,
- ✓ Percentage and
- ✓ Perception Index
- ✓ Likert type Scale

Statistical Analysis

- ✓ Linear regression model
- ✓ Logistic Regression Model
- ✓ Paired sample t-test.
- ✓ Pearson's product moment correlation coefficient
- ✓ Stepwise multiple regression

STUDY AREAS IN BANGLADESH



Source: Banglapedia, 2006

Reasons for selecting study areas

- ✓ **Spatial variation of poverty and resources**
To be indifferent to the spatial variation of poverty and resource endowment
- 2. **Famous and model microcredit village**
Many international visitors including, former President of the USA visited village *Joytura* located in the study areas.
Grameen Bank & BRAC presented *Joytura* as model microcredit village to them.
- 3. **Minimize the dominance and intention of MFIs**
Initial survey was conducted according to MFIs' direction and found only the successful cases.

Within a few days it was discovered that MFIs introduced only the successful cases hiding the failure poor intentionally.

Finally, members were searched ignoring the MFIs, with the help of local people.



Photos:
Group discussion with the
Members of NGO-MFIs



SAMPLING AND DATA COLLECTION

- Except non-members, others, who had been borrowing for a period of **more than 6 years** were selected – why?
- “It takes approx. **5 years** for a poor to work up above the poverty line and **8 yrs** to function independently from the MFIs” - Khandker & Chy,1996

Distribution of Sample According to their Affiliation							
Respondents	Financing Source	Affiliation	Dhaka	Mymensingh	Habiganj	Sherpur	Sub-total
Members	MFI	GrameenBank	38	40	38	44	160
	NGO-based MFI	BRAC	28	35	40	42	146
		ASA	8	32	42	38	122
		TMSS	0	14	22	24	60
	GO-based MFI	BRDB	2	8	0	20	30
	Commercial bank	RDS	10	52	0	20	82
Non-members			14	30	28	28	100
Total			100	211	170	216	700

Category of Respondents

(i) Active members group (n= 450)

Respondents, currently participating an MFI and had been involved in the MFPs for at least 6 years.

(ii) Inactive members group (n= 150)

Respondents, already left or dropped out from the MFI successfully or failing after the same time period involvement.

(iii) Non-members group (n= 100)

Respondents who lived in the same villages but did not participate in any MFPs even though they would have qualified to join.

CHAPTER 3: POVERTY ALLEVIATION APPROACHES IN BANGLADESH



Poor sitting roadside for alms



Trying to raise income

Topics

- ✘ Poverty and its measurement
- ✘ Bangladesh poverty map
- ✘ Causes of poverty in the study areas
- ✘ Pro-poor social safety-net program under GOs
- ✘ Current status of NGO-MFIs in Bangladesh

Poverty measurement in Bangladesh

Defining poverty

An economic condition in which

- one is unable to enjoy a minimum standard of living.
- one's earnings are too small to purchase the basic necessities.

Measuring Poverty

- **Dollar-a-day** income means individual living in "extreme poverty".
- Less than **two-dollars-per-day** means individual living in poverty.
- Re-fixed at US\$1.35/day/person for Asian countries.

Defining Poverty in Bangladesh Context

- Extreme poor - whose average per capita expenditure for 2007 is below BDT 16 to 22 (**\$0.23 - 0.32**)/person/day depending on region.

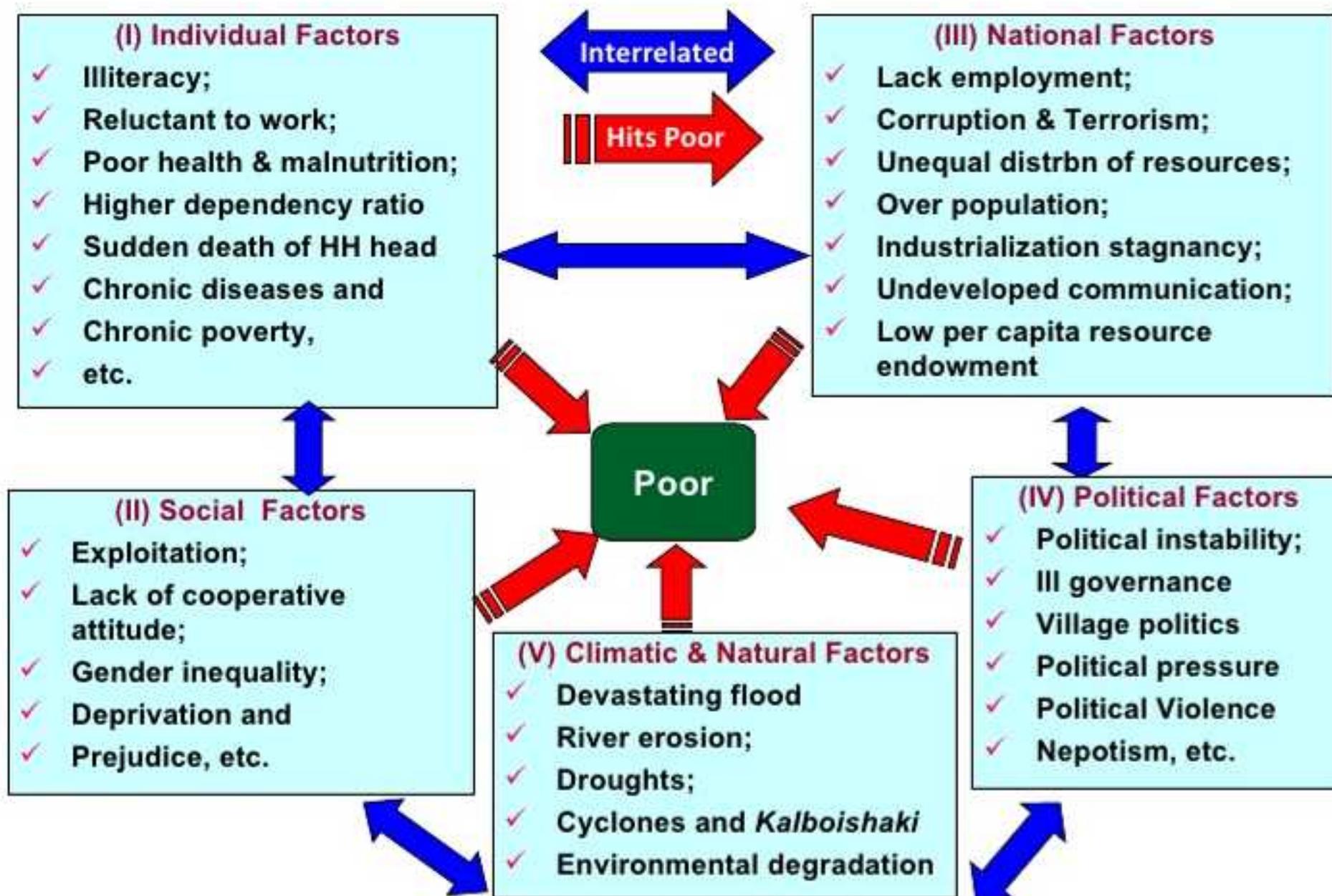
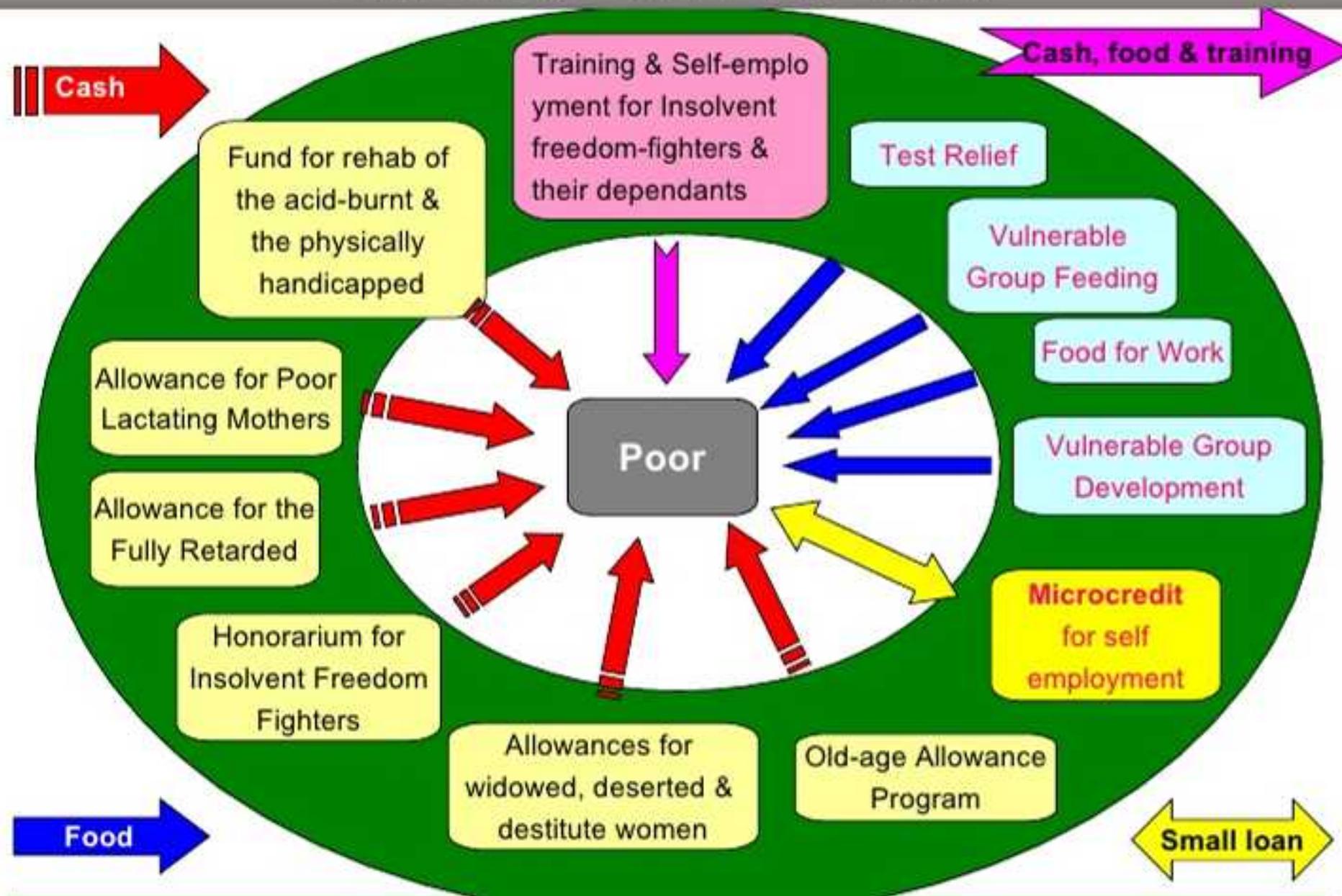


Fig. Causes of Poverty in the Study Areas



Pro-poor Social Safety-Net Programs under Government Sectors
Author's observation, 2010

CURRENT STATUS OF NGO-MFIS

BRAC represents 1/3 of total micro-borrowers

Grameen provides maximum loans

As of March, 2010

Areas of Performance	Grameen Bank	BRAC	ASA	RDS
Year of establishment	1983	1972	1978	1995
Current Members (million)	7.87	8.15	6.42	0.60
Outstanding (million US\$)	2724.04	670.26	437.76	47.1
Rate of Recovery (%)	97.86	99.29	96.10	99.00
Members' Savings (million US\$)	989.98	238.91	162.52	19.19

Source: Haque, 2010; Grameen Bank, 2010; BRAC, 2010 and ASA, 2010

Highest deposit collection by Grameen Bank

Loan recovery rate is highest for BRAC

CHAPTER 4:

RURAL FINANCIAL MARKETS AND MICROFINANCE PROGRAMS IN BANGLADESH



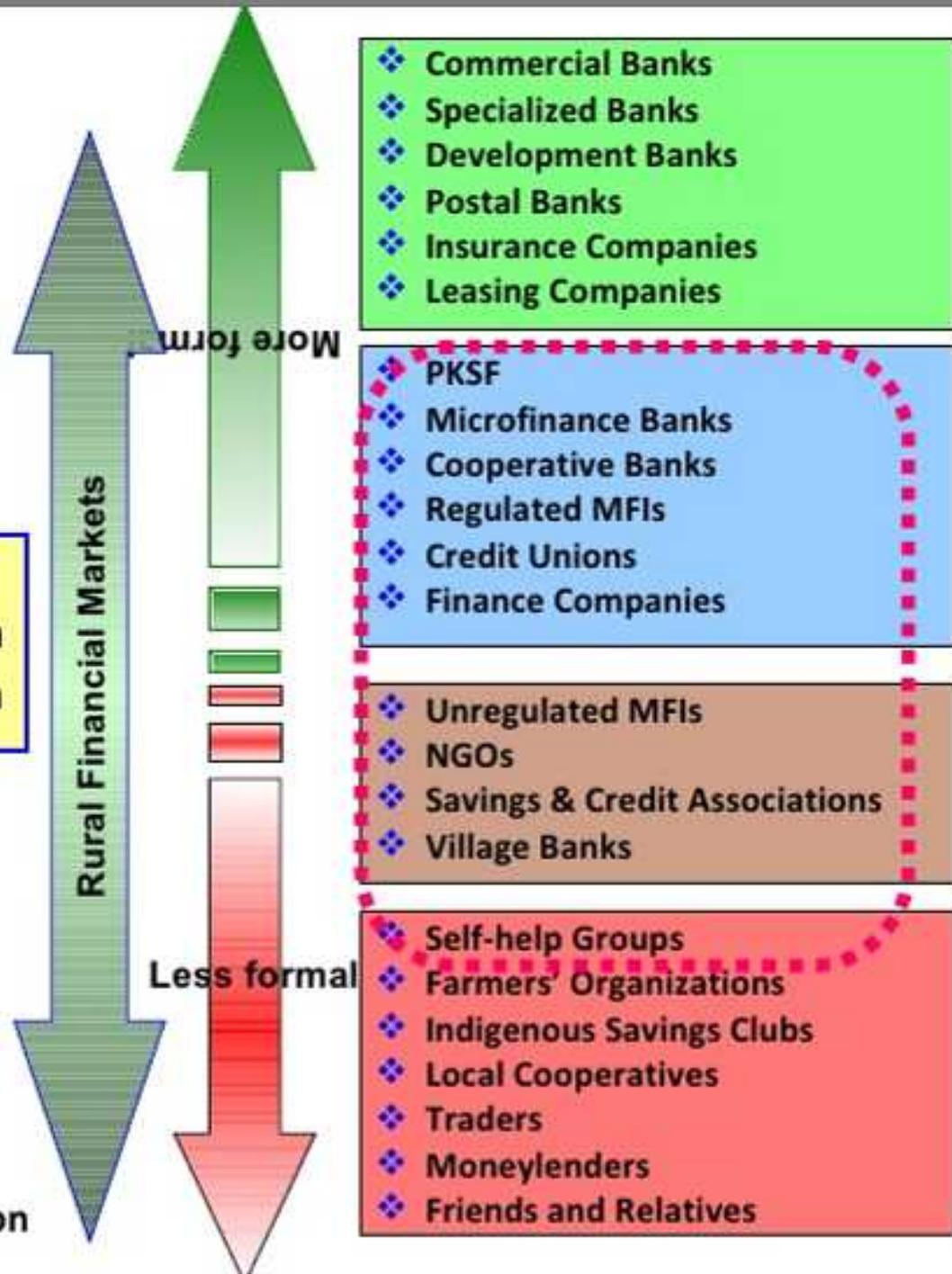
Topics

1. Rural financial markets (RFMs)
2. Continuum of institutional formality in the RFMs in Bangladesh
3. Registration of NGOs and MFIs
4. Microcredit regulatory authorities in Bangladesh
5. The informal financial markets

Rural Financial Markets (RFMs)

- ✓ RFMs raise, accumulate and distribute financial services in the rural areas.
- ✓ consists of formal and informal financial institutions those offer small-scale financing.
- ✓ Cover a wide array of MFIs including
 - indigenous savings & credit associations,
 - financial co-operatives,
 - rural branch of commercial and agricultural banks.

Fig : Continuum of Institutional Formality in the RFMs in Bangladesh



Source: Author's observation

Registration of NGOs and MFIs

- ✓ Before 2006, registration of NGOs was not mandatory.
- ✓ But NGOs registered themselves for the sake of legal recognition.

Now, any NGO can be registered with following **7 authorities**,

- i. Directorate of Social Welfare,
- ii. NGO Affairs Bureau,
- iii. The Department of Cooperatives,
- iv. Microcredit Regulatory Authority,
- v. Office of the Registrar of Joint Stock Companies and Firms,
- vi. Dept. of Women and Children Affairs, and
- vii. Youth Development.

- ✓ The largest number of NGOs is registered with the Directorate of Social Welfare.
- ✓ Since December, 2009, no NGO or MFI can operate MFPs without getting license from the MRA.
- ✓ License is available by ensuring either minimum balance of outstanding loan BDT 4 million or minimum borrower 1,000.

Microfinance Regulatory Authorities in Bangladesh

Palli Karma Sahayak Foundation (PKSF)

<http://www.pksf-bd.org/>

- ✓ Apex microcredit funding and capacity building organization
- ✓ Provide microcredit to the poor through its partner organizations

NGO Affairs Bureau (NGOAB)

<http://www.ngoab.gov.bd/>

- ✓ Works under the Prime Minister office
- ✓ Provides one-stop service to the NGOs operating with foreign assistance
- ✓ Ensures their accountability to the state and to the people of the country

Microcredit Regulatory Authority (MRA)

<http://www.mra.gov.bd/>

- ✓ Works under the central bank
- ✓ Central body to monitor and supervise NGOs and MFIs
- ✓ Ensure transparency & accountability of MFIs' microcredit activities

CHAPTER 5: BASIC INFORMATION OF THE RESPONDENTS AND STUDY AREAS



Photo: Arranged meeting for interview



Men paying weekly payments instead of women

Topics

1. Socioeconomic profile of the respondents
2. Distribution of the respondents by the amount of money currently borrowed
3. Categories of poor
4. Description of the study areas

Socioeconomic Profile of the Respondents (1/2)

<p>Family Composition</p>	<ul style="list-style-type: none"> ⊙ Respondents' average age : 35.79 yrs ⊙ Family members varied from : 2 to 15 ⊙ Male: Female :: 3.10::3.30 ⊙ Average family size : 6.40 persons ⊙ Dependency ratio : 1: 5.32
<p>Income & Expenditure</p>	<ul style="list-style-type: none"> ⊙ Average annual family income: BDT46465.00 ⊙ Average expenditure : BDT45054.00
<p>Education</p>	<ul style="list-style-type: none"> ⊙ All of the respondents can sign their names ⊙ Average schooling years: 2.411 yrs ⊙ Literacy rate :12.57%.

Socioeconomic Profile of the Respondents (2/2)

Gender Issues	<ul style="list-style-type: none">⊙ 98% of households are male headed⊙ Borrowed money was operated by husband or sons⊙ Self-operation was a rarity.
Landholding	<ul style="list-style-type: none">⊙ All respondents have at least homestead⊙ Average land holding per household : 0.19 ha
Occupation	<ul style="list-style-type: none">⊙ Majority of the respondents were housewives⊙ Main occupations of the HH head: small business (80%), and farm labor (16%)

Average Loan Requirements, and Received by the Respondents (Amount in BDT)

Groups	Amount Required	Amount Applied for	Amount Received	Loan Received	
				% of requirements	% of applied amount
Top 81 Members	42520.00 (14996.92)	19680.00 (5399.32)	19680.00 (5399.32)	100.00	46.28
Active Members	32940.00 (8362.72)	23482.77 (10437.55)	13723.33 (9213.92)	58.44	41.66
Inactive Members	43540.00 (9474.369)	33720.00 (8285.81)	10466.67 (6737.922)	31.04	24.04
All (Active & Inactive)	38240 (8918.545)	28601.39 (9361.68)	12095.00 (7975.92)	42.29	31.63

Figures within parentheses indicates Standard Deviation

1/3 of loan requirements are met by institutional sources

Distribution of the respondents by the amount of money currently borrowed

About 62% members
borrowed \leq BDT20,000

Amount (BDT)	Active Member		Inactive Member		All	
	Freq	%	Freq	%	Freq	%
5,001 - 10,000	60	13.33	19	12.67	79	13.17
10,001 - 15,000	115	25.56	38	25.33	153	25.50
15,001 - 20,000	100	22.22	41	27.33	141	23.50
20,001 - 30,000	94	20.89	35	23.33	129	21.05
30,001 - 40,000	45	10.00	15	10.00	60	10.00
40,001 - 50,000	20	4.44	2	1.33	22	3.67
50,001 & above	16	3.56	0	0	16	2.67
Total	450	100	150	100	600	100

Only 18% Active members
borrowed \geq than BDT30,000

Categories of Respondents according to different types of Poverty

86% members are Non-poor

Category	Active members	Inactive Members	Non-members	All
Non-poor / Better of poor / Rich	65	5	11	81
Vulnerable non-poor	214	26	40	280
Moderate Poor	161	46	37	244
Extreme Poor	10	73	12	95
Destitute	0	0	0	0
Total	450	150	100	700

Destitute and extreme poor have been excluded

**CHAPTER 6 :
IMPACT OF MICROFINANCE
ON POVERTY AND
VULNERABILITY**



**Photos: Women
engaged in income
generating activities**

Topics

- Activities undertaken with microfinance
- Factors affecting timely loan repayment
- Self-evaluation about HH food security by the respondents
- Housing status of the respondents
- Impact on land ownership
- Statement of assets and liabilities of the respondents
- Microfinance failed to break vicious circle of poverty
- Reasons behind success and failure with MFPs

Activities undertaken with Microfinance

Purpose	Active Member		Inactive Members		All	
	Freq	%	Freq	%	Freq	%
Repayment of old debts	290	64.44	142	94.67	432	72.00
Agro-support/based activities	140	31.11	82	54.67	222	37.00
Small trading	160	25.56	40	26.67	200	33.33
Poultry rearing				28.67	185	30.83
House building and repairing				26.67	178	29.67
Consumption	48	10.67	96	64.00	144	24.00
Meet medical expenses	58	12.89	36	24.00	94	15.67
Livestock rearing				2.67	75	12.50
Meet marriage expenses				8.00	35	5.83
Renting/mortgaged in farm land				0	28	4.67
Fish culture	24	5.33	0	0	24	4.00
Purchasing rickshaw	21			1.33	23	3.83
Lend money on interest	12			0	12	2.00
Total	1161	100	499	100	1660	100

Majority of the members spent borrowed money on unproductive purposes

2/3 respondents spent money for consumption purposes

MFPs facilitates money lending

Factors Affecting Timely Loan Repayment

For getting bigger loan repayment rate increases

Factors	Active members (n=450)		Inactive members (n=150)		All (N=600)	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
To get further loan in big amount	422	93.78	150	100.00	572	95.33
Self consciousness	72	16.00	3	2.00	75	12.50
Supervision and monitoring by field officers	42	9.33	0	0.00	42	7.00
Pressure of group members	58	12.89	47	31.33	105	17.50
Pressure of field officers	43	9.56	10	72.00	151	25.17
Ease of payment through installments	87	19.33	2	1.33	89	14.83
Sufficient earning from MCPs for loan payment	90	20.00	2	1.33	92	15.33

Supervision and monitoring do not work

IGAs taken with MFPs have contribution ?

Figure : Self-evaluation about Family Food Security by the Respondents (in percentage)

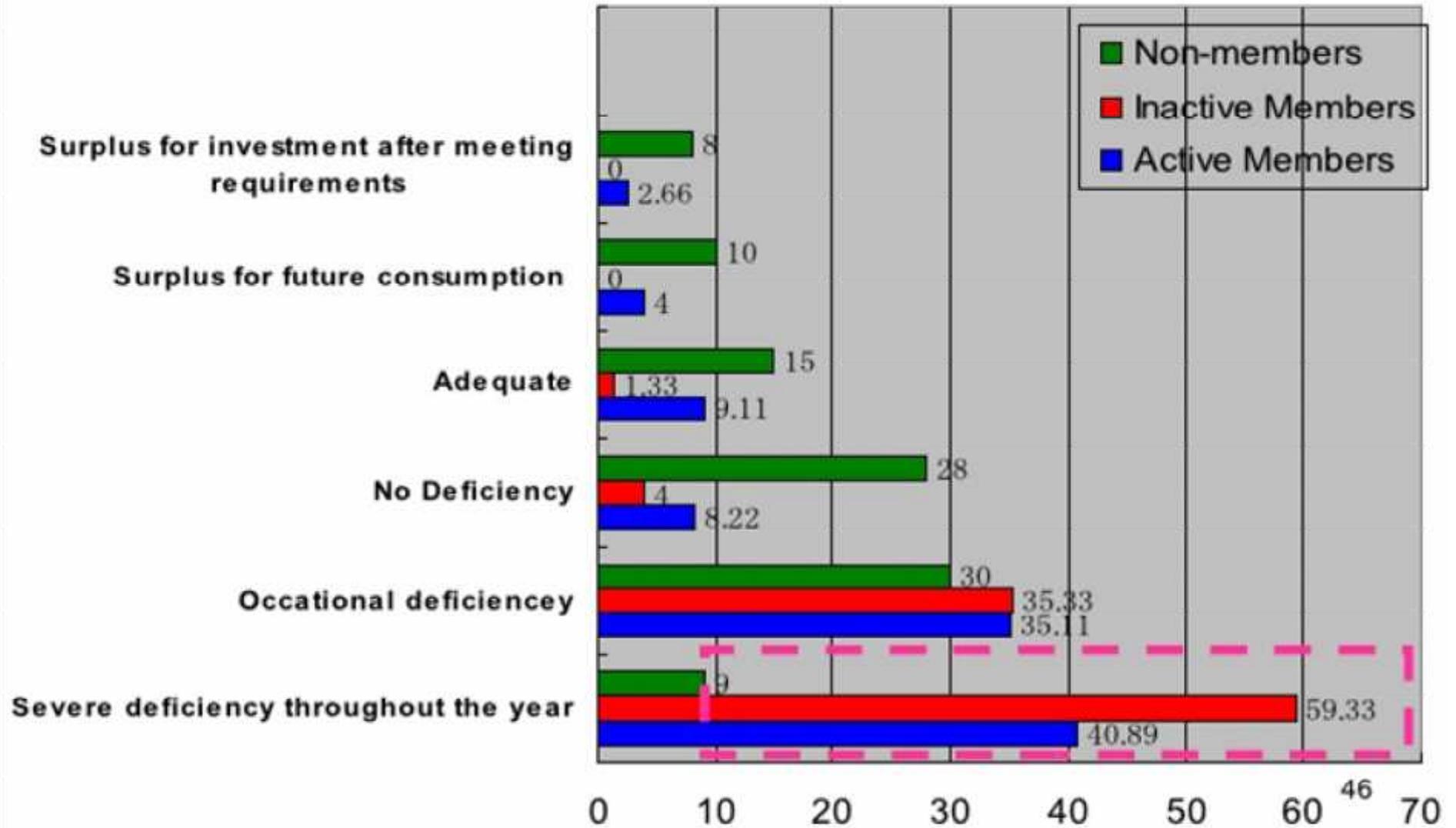




Figure: Types of Housing Enjoyed by the Respondents

Housing Status of the Respondents

Type of housing	Active Members		Inactive Members		Non-members		All	
	n	%	n	%	n	%	n	%
Jhupri	5	1.11	4	2.67	2	2.00	11	1.57
Katcha house	374	83.11	138	92.00	65	65.00	577	82.43
Tin-shade	59	13.11	8	5.33	25	25.00	92	13.14
Semi Pucca	12	2.67	0	0	8	8.00	20	2.86
Total	450	100	150	100	100	100	700	100

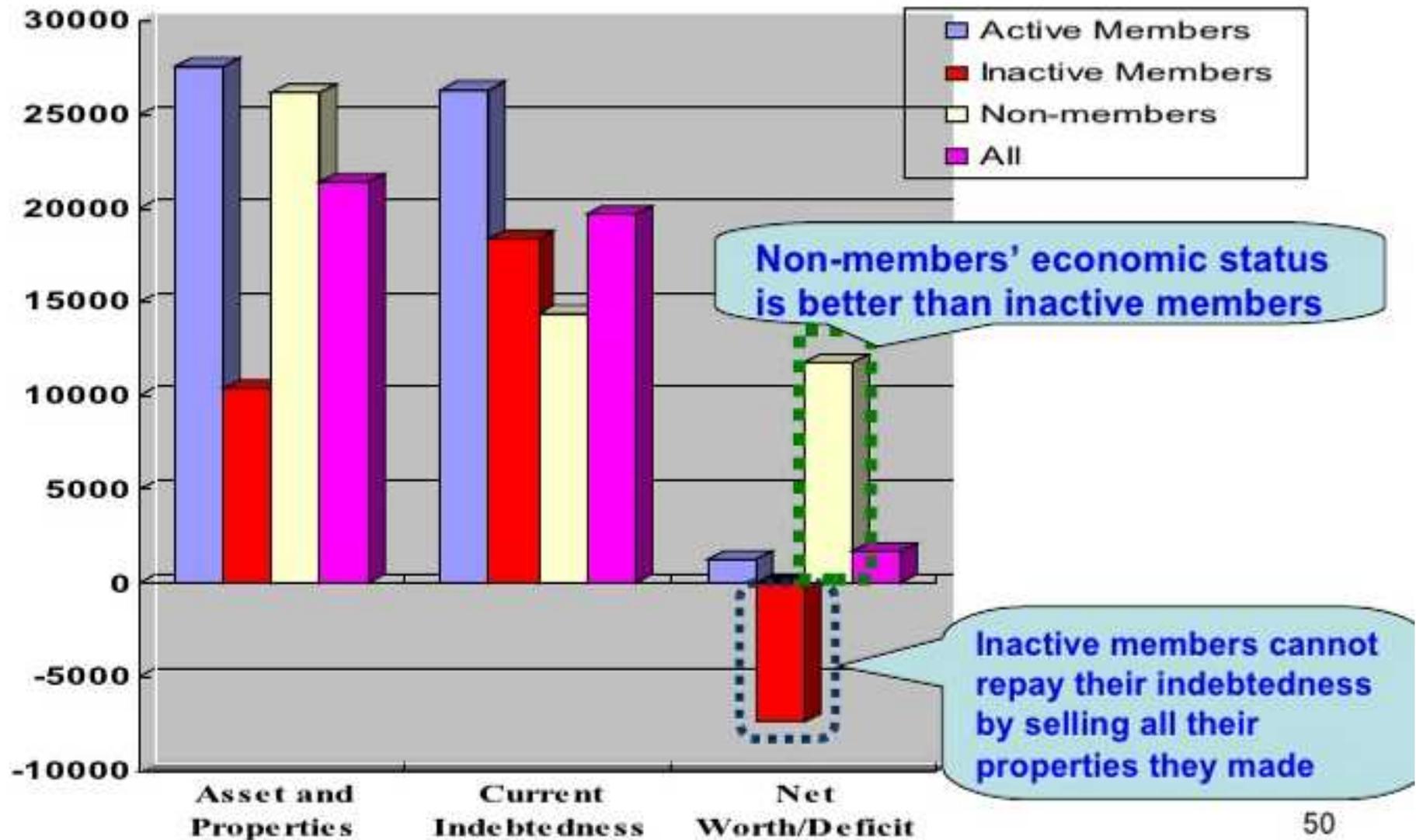
98.43% respondents improved their housing conditions

- ❖ All respondents acknowledged the donation of their relatives or neighbors or GOs to improve their housing status.
- ❖ Cluster Village project under the Ministry of LGED improved the housing facilities of the poor by providing built tin-shed house.

Impact of MFPs on Land Ownership

- **Achieved through leasing or mortgaging**
 - 18 Active members 0.58 acres
 - 11 Non-member and 0.28 acres
- **Lost land or homestead for liquidation of previous loans**
 - 28 Inactive members
 - 9 Active members
- Improved land holders had been richer and possessed **1.3 acres** of land before their membership with MFIs.
- Note, poor having **less than 0.5 acres** of land are eligible for being member of MFI.

Fig.: Statement of Assets and Liabilities of the Respondents (in BDT)



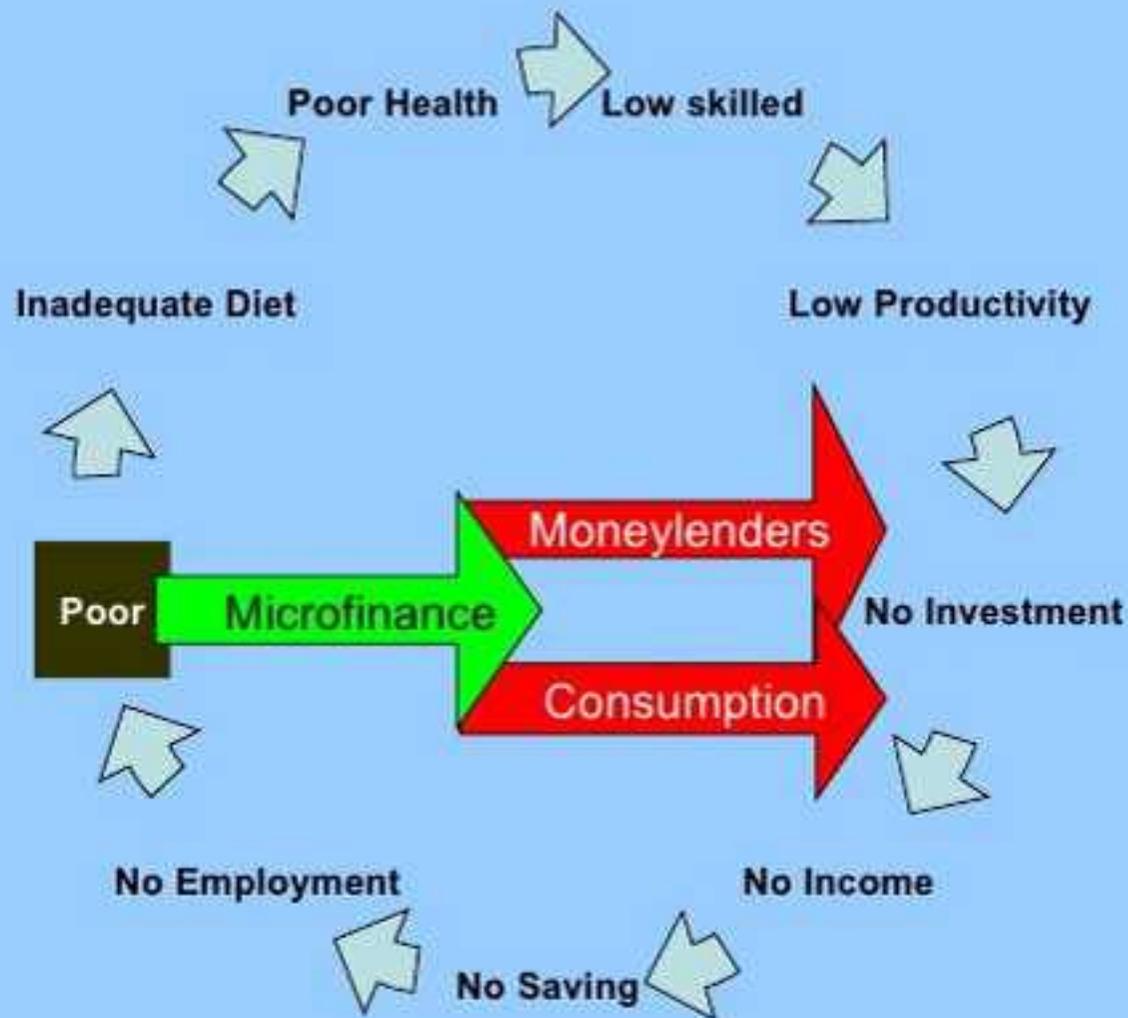


Fig : Microfinance Failed to break Vicious Circle of Poverty
(Source: Author's Observation)

Reasons behind success

- Better socio-economic status prior to joining MFIs.
- Without joining MFIs they were capable of maintaining their lives.
- Part- and full-time employment of women.
- No indebtedness with professional moneylenders.
- Willingness, hard work and engagement in non-firm IGAs.

Reasons behind failure

- Indebtedness with the moneylenders @ exorbitant interest.
- High rate of dependency, i.e., one earning member had to feed many dependent family members.
- Sudden injury/sickness or death of the HH head.
- Laziness of the household head
- Living in unhygienic environments and victims of malnutrition.
- Physical weakness and unfit for hard works.

CHAPTER 7 :
MICROCREDIT INTEREST RATES:
INSTITUTIONAL SUSTAINABILITY Vs BORROWERS' GRADUATION



Women engaged in extra IGAs



Poor waiting for relief

Topics

- Terms and conditions of microcredit
- Methods of calculating interest payments
- Calculating the payment amount per period (PMT)
- Comparison of interest rates of lending sources in Bangladesh
- Arguments on fixing high interest rates
- Encountering arguments

Terms and Conditions of Microcredit

Particulars	Grameen Bank	BRAC	ASA	RDS
Admission fee (BDT)	0	0	20	0
Loan size in first cycle	6000	4000	5000	5000
Initial deduction/BDT1000 (as forced savings)	0	50	0	0
Flat Interest rate (%)	11.00	12.50	12.50	7.50
Repayment mode (weekly installment)	46	46	37	44
Installment amount / BDT1000	25	28	30	25
Weekly savings (BDT)	20	25	20	25
Interest on savings (%)	8.50	5.00	4.00	6.00

Lowest interest charged by RDS

Lowest number of weekly installments by ASA

Much difference between interest receiving & paying

Source : Field Survey, 2008

Methods of Calculating Interest Payments

Declining Balance Method

- ✓ Computed based on the balances remain in the borrower's hands.
- ✓ Interest is not charged on the amount of the loan principal that the borrower has already repaid.

Flat Method

- ✓ computed based on the original face amount of the loan.
- ✓ raises the PMT and increases the effective rate to the borrower.
- ✓ loan is costly for borrower & generates more income for the lenders.

Calculating the Payment Amount per Period (PMT)

The formula for calculating the payment amount is shown below.

$$A = P \frac{r(1+r)^n}{(1+r)^n - 1}$$

where

- A = payment amount per period
- P = initial Principal (loan amount)
- r = interest rate per period
- n = total number of payments or periods

For Grameen Bank,
 $P = \text{BDT}1000$
 $r = 11\% = 0.002115385/\text{week}$
 $n = 46 \text{ weeks}$
So, ' A ' should be $\text{BDT}22.84$

In Microsoft Excel calculation of ' A ' is more easier.

Effective interest rate (EIR)

- ✓ The rate that a client is "really" paying,
- ✓ Based on the amount of loan proceeds actually in the client's hands during each period of the life of the loan.
- ✓ The formula to calculate the effective interest rate is:

$$EIR = \frac{\text{Total interest and fees}}{\text{Average balance outstanding}} \times \frac{\text{Periods in a year}}{\text{Periods in the loan term}}$$

Comparison of Interest Rates of Lending Sources in Bangladesh

Highest interest charged by BRAC

Annual percentage rate (%)

Lending Sources	Announced Interest Rate	Effective Interest Rate	Effective Interest Rate Incl. Costs
Grameen Bank	11.00	33.56	36.59
BRAC	12.50	46.38	51.31
ASA	12.50	30.68	36.68
RDS	7.50	23.83	27.76
Informal sources	33-120	50-150	50-150

Lowest interest charged by RDS

Source: Authors' Calculation (See Annex 1)

Any difference between interest rate of formal and informal sources?

Arguments on Fixing High Interest Rates

- ✘ In percentage terms, costs of making a small loan are higher than a larger loan.
- ✘ Loans are collateral free - highly risky.
- ✘ The alternatives (moneylender) available to the poor are costly.
- ✘ If institutional sustainability is eroded,
 - ✓ MFIs cannot serve the poor, or,
 - ✓ may operate only for a limited time; or
 - ✓ reach a limited number of clients; or
 - ✓ will tend to be driven by donor or govt. goals, not client needs.

So, interest rates that cover costs are necessary.

Encountering Arguments



Dr. Younus got Nobel Prize



Poor waiting for Relief



Sir Fazle Hasan Abed Conferred Knighthood



Grameen Bank HQ



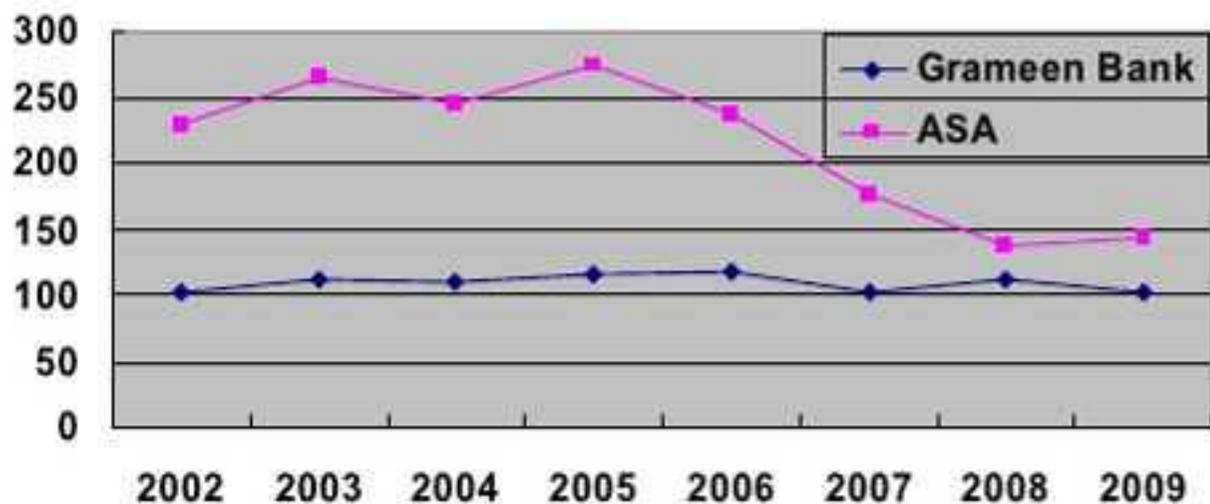
BRAC Center

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Case of ASA

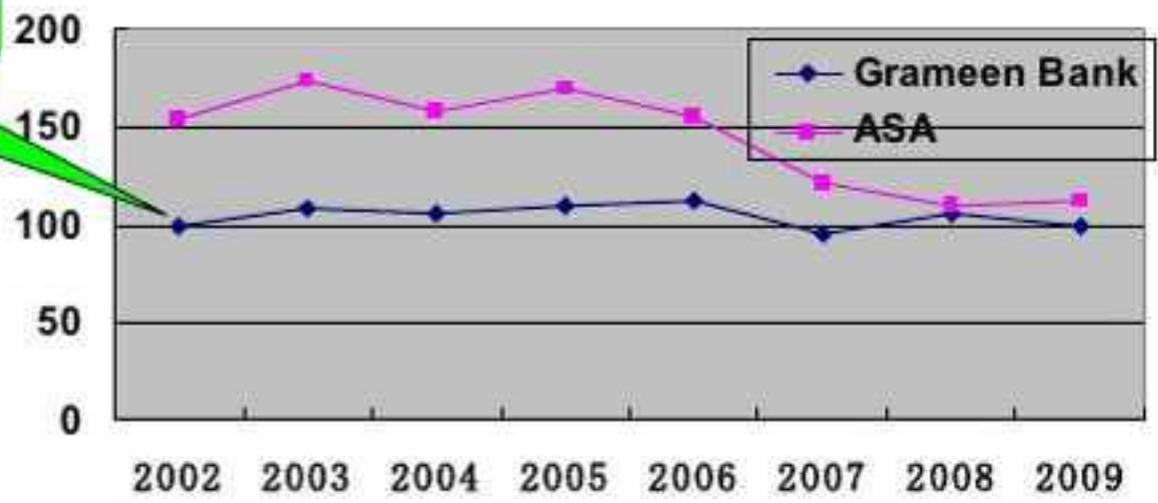
Fig: Operational Self-sufficiency



MFIs already achieved Operational sufficiency

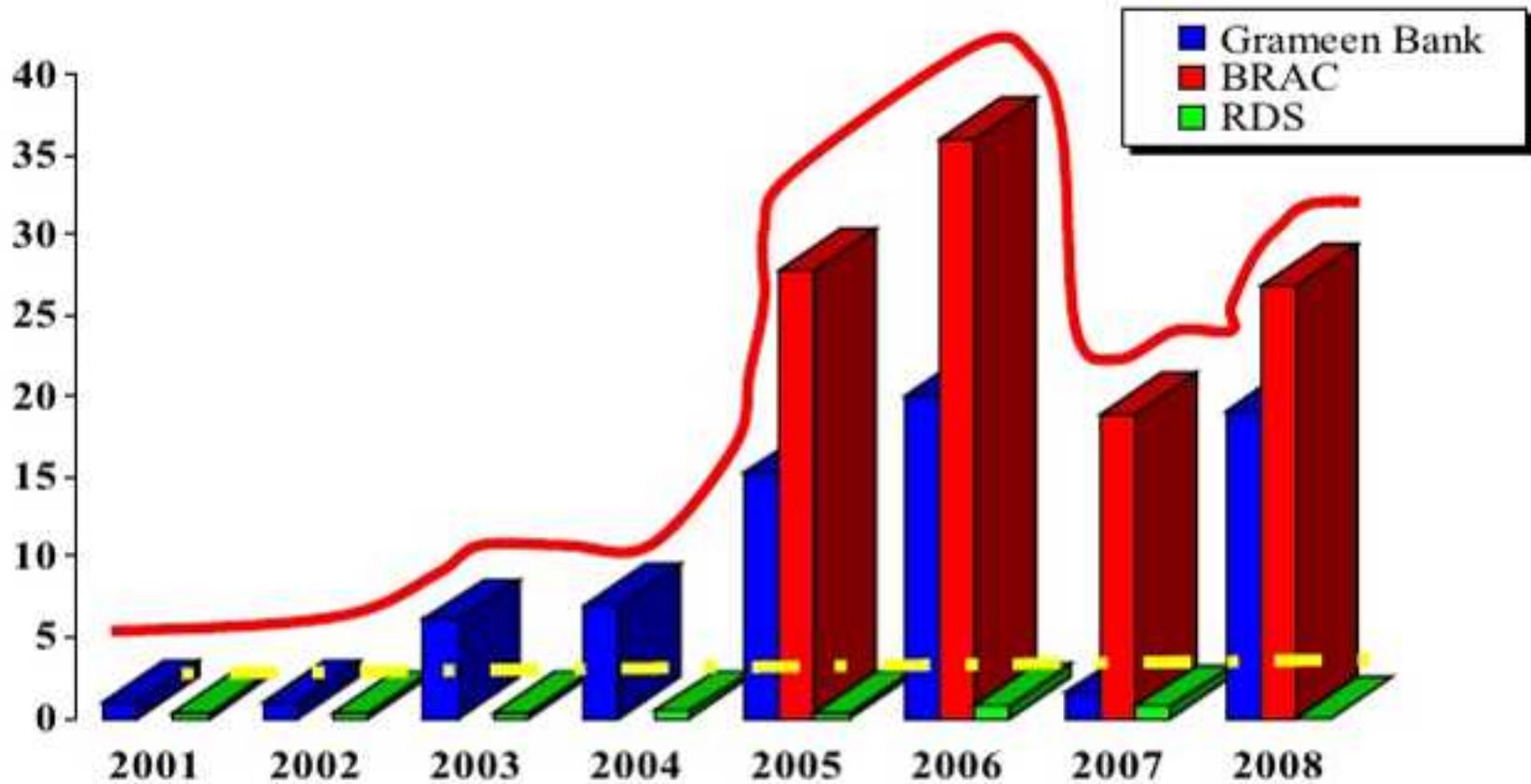
Fig: Financial Self-sufficiency

Financial sufficiency suggests for reducing interest rates



Annual Profit of Leading MFIs

Fig: Yearly Profit in Million US\$ of the Concerned MFIs



Note. MFIs are Non-profit Motive

Borrowers Repayment Capability

Fig. Active Members

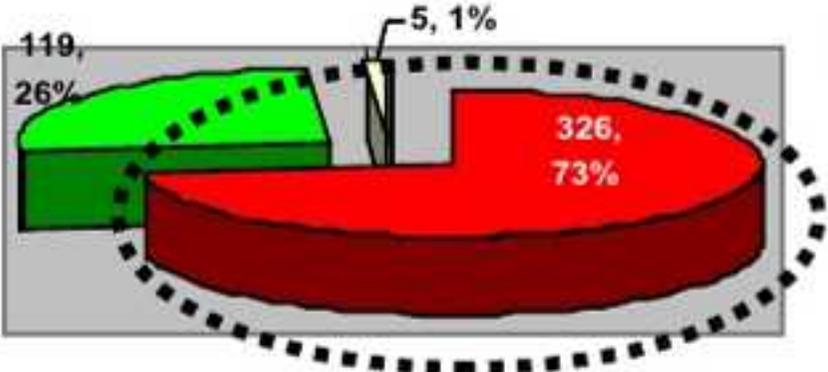
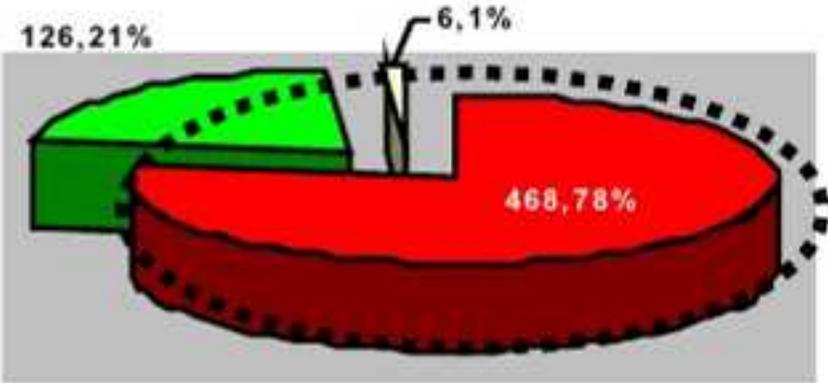
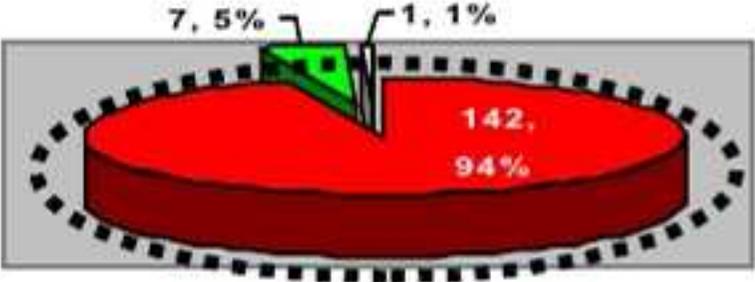


Fig. Active and Inactive Members

- Face Difficulties and Take Hardship
- Without taking hardship measures
- Non-response

Fig: Inactive Members



Encountering arguments (1/2)

Argument 1: Higher costs for small loans

- Commercial banks rates are lower than MFI rates, e.g. RDS $\leq 30\%$.
- The program model is outreach widening, not deepening. If they “touch and move” how do they enlarge the loan size and increase the revenue per client?
- When clients demand a loan range of \$500 to \$2000, they are provided a loan below \$100.
- MFIs have kept the sector as a small loan, high cost one intentionally.

Argument 2: High risk

- ✓ Most MFIs have reported 98+ percent on-time repayments.
- ✓ Number of NGOs are increasing day by day.
- ✓ Where are the high risks?

Encountering arguments (2/2)

Argument 3: Comparing with moneylenders

MFIs should not compare them with the worst informal moneylenders. Such argument negates the objectives with which they came into existence.

Argument 4: Institutional sustainability

- ✓ MFIs want to secure their sustainability before livelihoods of the poor become stabilize.
- ✓ Sustainability comes from poor's high interest payment - not out of income of the MFIs, or reducing the operating costs.
- ✓ While poverty is alleviated, future plan of MFIs on assets and properties they have already formed is unclear?

CHAPTER 8: WOMEN'S EMPOWERMENT AND MICROFINANCE PROGRAMS

**"We want affordable credit"
- Center Leader (elected
Union Council member)**

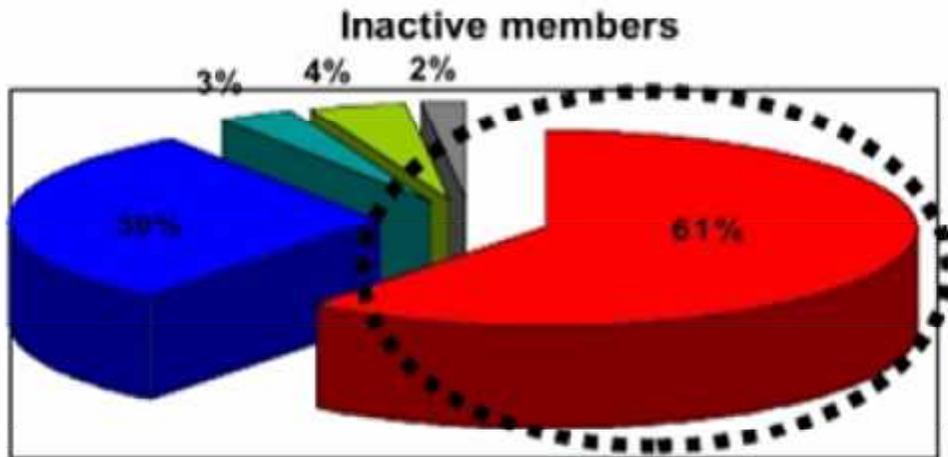
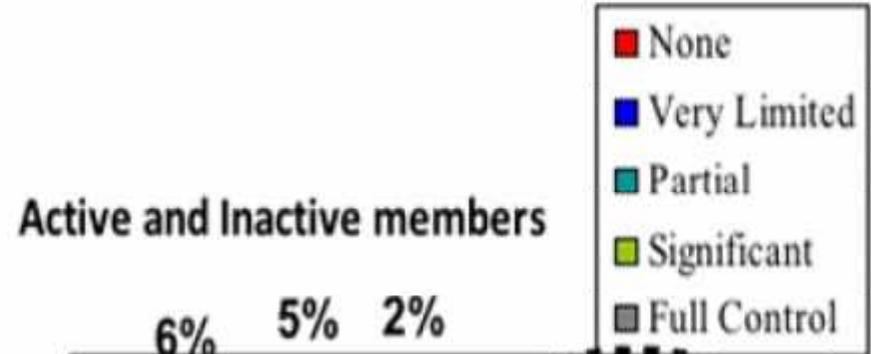
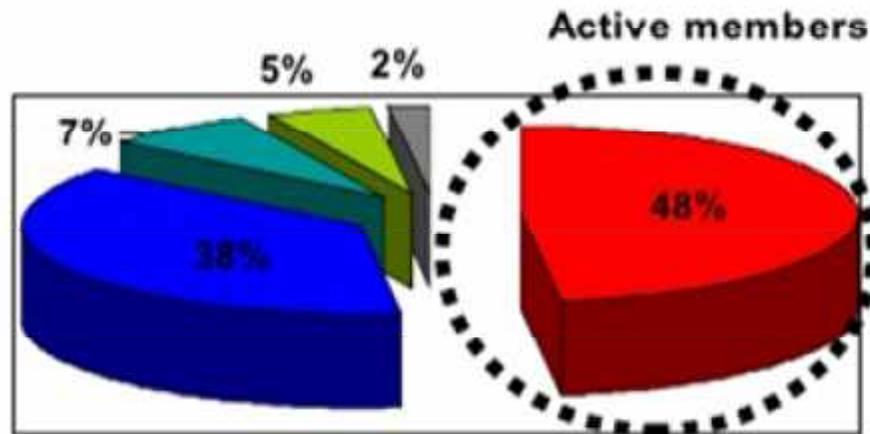


Topics

2. Control over loan utilization & funded enterprises
4. Women's contributions to family income
6. Scores obtained by the respondent women in six dimensions of empowerment
8. Categories of women according to empowerment status
10. Relationship between women's empowerment and selected characteristics

Control over Loan Utilization & Funded Enterprises

Except widowed, separated or divorced and younger married few has full control over loan



Women's Empowerment Status with and without MFPS

Very few women empowered with MFPS

- Both the member and non-member women achieved improved level of empowerment regardless of participation in MFPS over time.
- But the unit scores in most of the empowerment dimensions remain relatively low.

- Achieved empowerment level

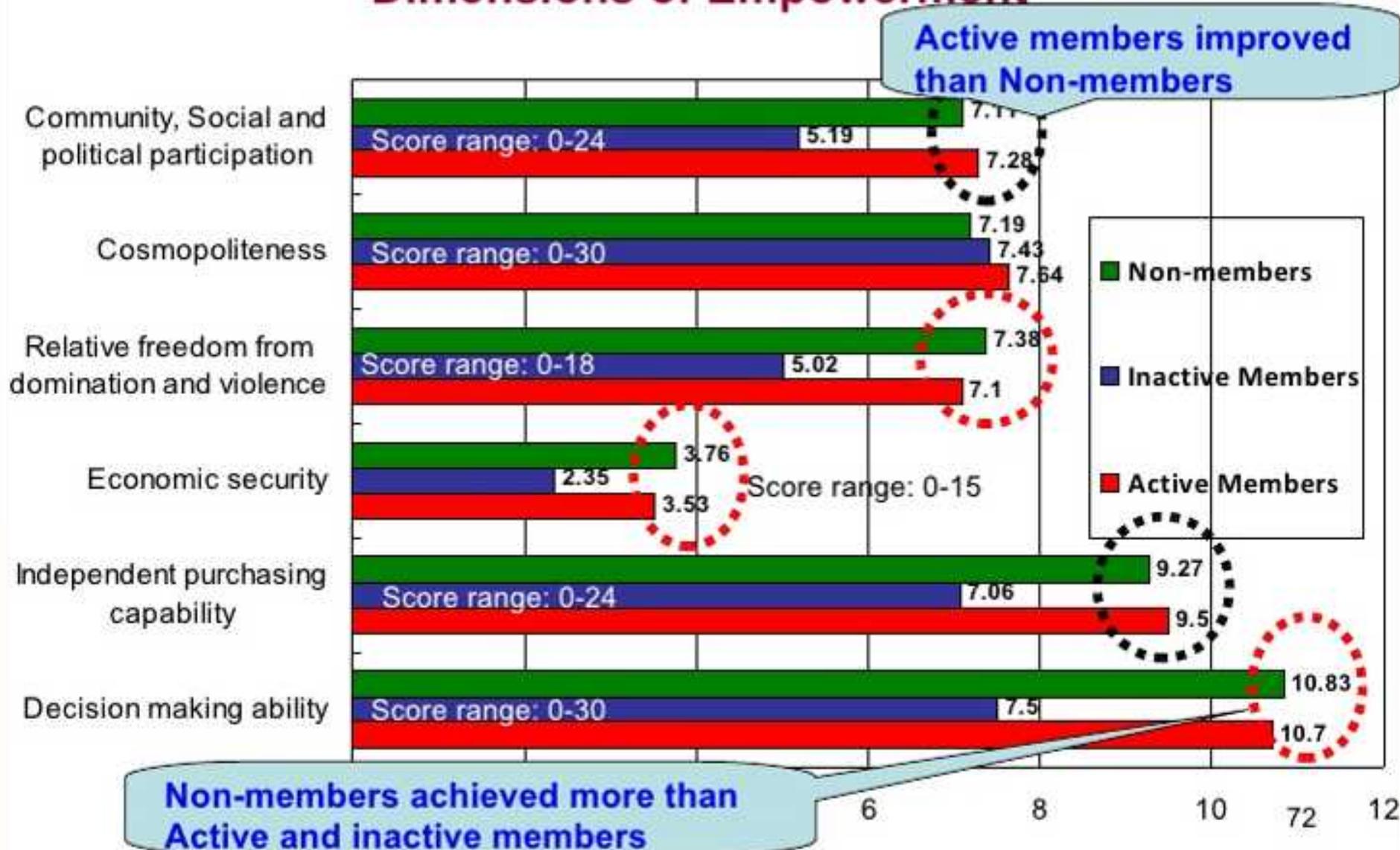
✓ Active members	0.32447
✓ Non-members	0.32298
✓ Inactive members	0.24504

Almost same

Poor women fail to empower themselves with MFPS

- Inactive members failed to raise their empowerment status.
- Many of them demoted their status to lower empowerment category.

Scores Obtained by the Respondent Women in Six Dimensions of Empowerment



Categories of women according to their status of overall empowerment with and without participation

Categories and score range	Percentage			Mean and std. dev.		
	Active (n=450)	Inactive (n=150)	Non- membrs (n=100)	Active (SD)	Inactive (SD)	Non-membrs (SD)
Very low empowerment (up to 47)	66.00	69.30	62.00	MFPs fail to empower their women beneficiaries		
Low empowerment (48 to 71)	13.78	22.70	14.00			
Medium empowerment (up to 72 to 94)	17.11	8.00	21.00	45.75 (22.188)	34.55 (20.959)	45.54 (27.580)
High Empowerment (Above 94)	3.11	0.00	3.00	Non-members improved or at least sustained their empowerment status		
Total	450	150	100			

t-statistics for Active, Inactive and Non-members were 43.740**, 20.191** and 16.512** respectively where **P<0.01

Obtained scores 9 to 137 (Possible 0 to 141)
 Non-members - 11 to 137
 Active members 17 to 123
 Inactive members 9 to 85

Microfinance failed to empower women – why and how?

Loan defaults enhance social isolation

Loan delinquency & defaults are very common which creates

- ✓ serious social isolation that enhances social deprivation
- ✓ pressures from peer-group members, and MFI officials
- ✓ mental depression, serious stress, and social hardship.

MFPs increase household conflicts

- ✓ Quarrel with husbands, who mainly used the borrowed money.
- ✓ these quarrels turned into common HH conflicts and such conflicts
- ✓ lead to divorce, abandonment and serious physical abuse.

Borrowing microcredit is discouraged by rural society

- ✓ Borrowing from MFIs is sometimes considered as loss of prestige and dignity in the rural society.

Relationship between rural women's empowerment and selected characteristics

Independent Variables	Correlation Coefficient (r)
Age	- 0.178**
Education	0.753**
Education of husband	0.848**
Annual household income	0.232**
Contribution to household	0.696**
Family size	- 0.116**
Training received	- 0.041
Marrying age	0.071
Duration of participation ¹	- 0.41
Purdah use	- 0.008
Control over credit ¹	0.752**
Husband's attitude towards empowerment	0.648**
Status of Natal property	0.634**

Nine variables had significant positive relationships.

Variables like duration of participation, training received and *purdah* use, did not in fact show any significant relationship

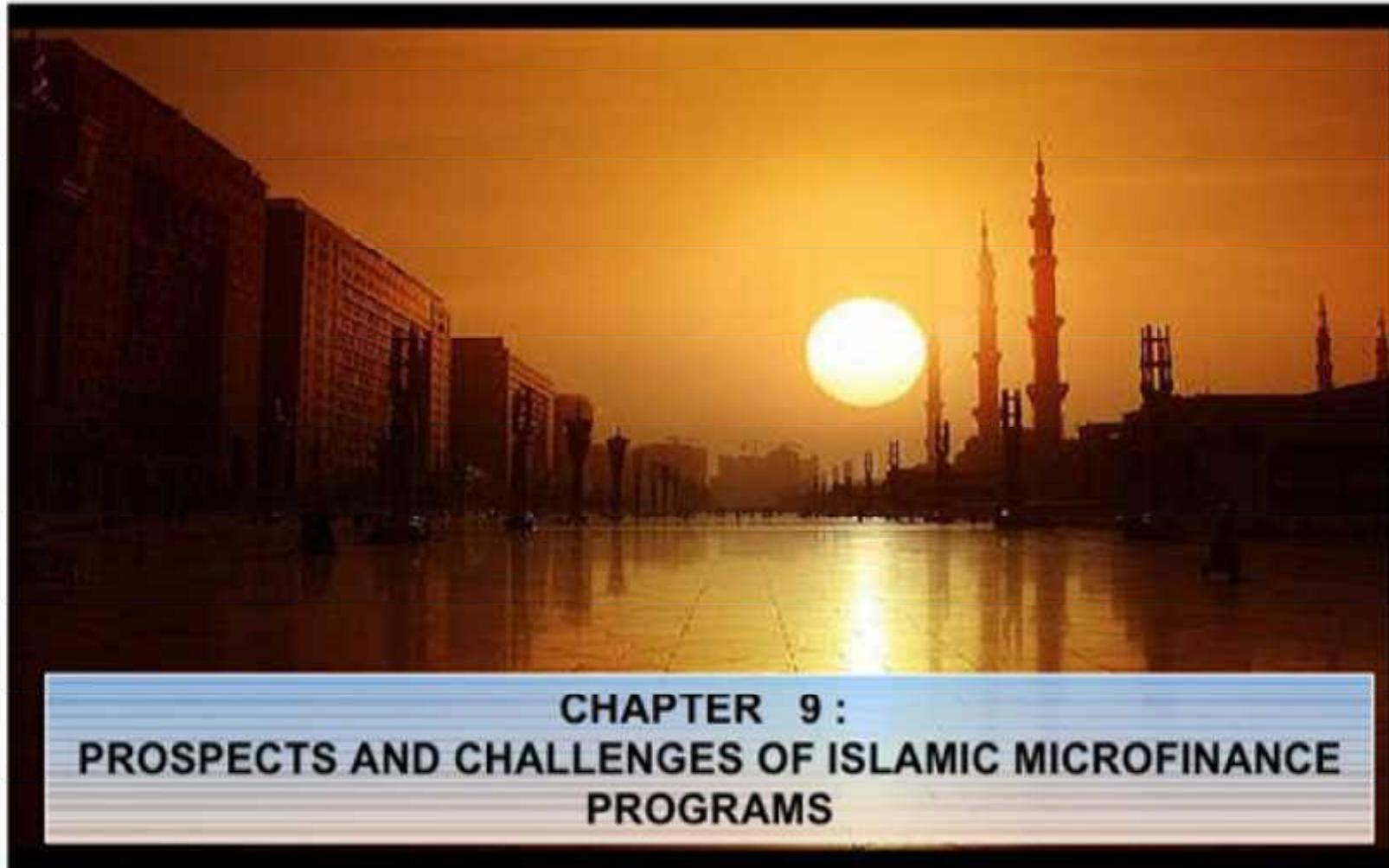
¹ based on active and Inactive members

Stepwise Multiple Regression Analysis Showing Variation of Women's Empowerment Score Explained by Different Factors

Model	Variable entered	Multiple R	Coefficient of determination R^2	% of variation expressed
1	Education of husband / household head	0.848	0.719	71.9
2	Attitude of male partner towards empowerment	0.872	0.760	4.1
3	Education	0.882	0.779	1.9
4	Contribution to household	0.890	0.792	1.3
5	Age	0.896	0.803	1.1
6	Training received	0.907	0.805	0.2
7	Yearly annual income	0.914	0.834	2.9

Source: Results of authors' analysis

Education and attitude of HH head are most important for women empowerment



**CHAPTER 9 :
PROSPECTS AND CHALLENGES OF ISLAMIC MICROFINANCE
PROGRAMS**

Photo source: Islamic foundation Bangladesh

Topics

2. Difference between of Islamic & conventional microfinance
 - Demand for Islamic MFPs
 - Potential of Islamic microfinance in poverty alleviation
 - Borrowers' perception towards Islamic MFPs
 - Challenges of Islamic MFPs in Bangladesh

Difference between Conventional and Islamic Microfinance

Criteria	Conventional Microfinance	Islamic Microfinance
Source	General economics	Islamic economics
Principle	Interest based	Profit based
Risk sharing	Not applicable	Applicable
Profit and loss sharing	Not applicable	Applicable
Mode of investment	In cash	In kind
Ownership transfer	At the time of loan handover	On full repayment of loan

Demand for Islamic Microfinance Programs

Inelastic demand for Islamic MFPs prevail in the study areas.

➤ **All Respondents**

≥ 80% respondents claim a preference for Islamic products over conventional ones.

➤ **Muslim Respondents**

- 97.5% respondents preferred for Islamic MFPs and
- 45% of them preferred even if they come at a higher price.

➤ **Members of Conventional MFIs**

- 85% of them will not apply for another loan from the conventional MFIs
- tend to switch over once Islamic MFPs become available.

➤ **Non-members**

62% non-members considered religious reasons as the most important barrier in obtaining conventional credit.

Potential of Islamic Microfinance in Poverty Alleviation

Following features revealed the high potential of Islamic MFPs

- ✓ Islamic religiously motivated personnel operated
- ✓ Majority of clientele are Muslim and bear a strong belief in Islam
- ✓ Credits are given in kind, which prevent misuses of loans
- ✓ Ownership is transferred on full repayment
- ✓ Low interest rate
- ✓ Risk sharing investment, so more care is given by MFIs
- ✓ Job opportunity for qualified poor *Madrasa* students

Borrowers' Perception towards Islamic MFPs (1/2)

Opinions	Muslim (N=70)		Non-muslim (N=12)	
	Mean	SD	Mean	SD
Islamic in character and it does not deal with interest	4.31	0.516	2.00	0.953
RDS charges lower profit (interest) compare to conventional NGO-MFIs	4.23	0.731	4.17	0.835
RDS is nearer to our dwelling houses	3.18	1.323	3.67	1.073
Flexibility in weekly installment payment system of RDS	4.08	0.709	3.91	0.996
Good behavior of the RDS field officers to their clients	4.03	0.955	4.00	0.739
Borrowing from bank is preferable than NGOs	4.375	0.753	4.02	0.732
No scope of mixing unknown male persons in unknown places	3.30	1.209	2.67	0.778
No barriers in practicing <i>Purdah</i>	3.83	1.032	2.00	0.853

Scale: 1=strongly disagree; 2=disagree; 3=no opinion; 4=agree; 5=strongly agree.

Respondents' Perception towards Islamic MFIs (2/2)

Opinions	Members of MFIs		Non-members	
	Mean	SD	Mean	SD
Islamic in character and it does not deal with interest	4.21	1.064	4.72	0.573
RDS charges lower profit than conventional MFIs	4.45	0.692	4.30	1.015
Undue pressure by conventional MFIs on weekly payments	3.99	0.879	NA	NA
No chance of mixing unknown male persons in unknown places	NA	NA	3.06	1.361
Borrowing from bank is preferable than MFIs	4.38	0.753	3.84	0.842
No barriers in practicing <i>Purdah</i>	3.02	1.341	4.22	0.954
If it is available, I shall join IMFIs leaving current membership	4.15	0.858	NA	NA
If it is available, I shall join IMFIs	NA	NA	4.64	0.693

Scale: 1=strongly disagree; 2=disagree; 3=no opinion; 4=agree; 5=strongly agree. NA = Not applicable

Challenges of Islamic MFPs in Bangladesh

- ✓ Limited funds constrain Islamic MFPs to reach the poorest of the poor
- ✓ Allegation of involvement with funding and patronizing militant activities
- ✓ Dominance of conventional NGOs and MFIs
- ✓ Lack of entrepreneurial and managerial skills of the officials
- ✓ Unfavorable rules and regulations which contradicts with Islamic rules.



Conclusion 1/3

Impact of Microfinance in Poverty Alleviation

- MFIs are successful at reaching the wealthier poor; not to the extreme poor and destitute groups.
- For poor with previous indebtedness, MFPs are not effective
- Effective only for economically active poor.

Interest rates, sustainability & borrowers' graduation

- ✓ MFI interest rates are much higher in terms of borrowers' graduation
- ✓ Charging high interest to poor is unfair, and unrealistic.

Conclusion 2/3

Microfinance programs and women's' empowerment

- ✓ Only economically active women could uplift their empowerment status
- ✓ Majority of MFI members remained or demoted into '*low level of empowerment*'.
- ✓ Non-members improved or at least sustained their empowerment status

Prospects of Islamic microfinance

- ✓ Inelastic demand for Islamic MFPs exists in the study areas.
- ✓ Islamic MFPs have a potential to alleviate rural poverty.

Conclusion 3/3

In a nutshell,

- MFIs are not doing exactly what they are publicly claiming.
- Microfinance is a good business for the MFIs; but, unfortunately, not so for its borrowers.
- Ironically, many poor borrowers, in fact, get deeper into debt and poverty in the process.
- Therefore, a modified, comprehensive, and specialized approach is needed to address the diverse needs of the poor and alleviation of poverty.

RECOMMENDATIONS

- ✓ **Target Groups:** Special care should be given to the extreme poor and destitute.
- ✓ **Loan Policy:** Sufficient amount of loan should be given
 - Upon ensuring skill development training
 - in kind
 - at reasonable lower interest rate
 - to enterprises selected upon consultation with MFIs.
 - loan re-payment installment should be fortnightly or monthly.
- ✓ **Monitoring and Supervision:** Regular monitoring, follow-up support and services should be ensured.
- ✓ **Other Supports:** Steps should be taken for liquidation of members' indebtedness with moneylenders.
- ✓ Institutional supply of raw materials can benefit the borrowers and enhance the institutional sustainability.
- ✓ Marketing facilities for the members should be given to ensure fair products price.

The End

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Calculation of Effective Interest Using Flat Method

Annex 1

Consider, loan amount = Tk. 1000; Loan term = 46 weeks; Amount of installment (PMT) = Tk.25 /Tk. Thousand ; Loan repayment period = weekly; Annual interest rate (flat) = 11% , So, weekly interest rate (11/52 weeks) = 0.212%

Week #	Outstanding balance	Amount of Installment payments		PMT	Interest Rate Weekly
		Principal	Interest		
	$A2 = A1 - B1$	$B1 = D1 - C1$	$C1 = B1 \times E1$	D	E
Received					
1	(A1) 1000	(B1) 22.88461538	(C1) 2.115385	(D1) 25	(E1) 0.002115385
2	(A2) 977.1153846	22.93302515	2.066975	25	0.002115385
3	954.1823595	22.98153732	2.018463	25	0.002115385
4	931.2008222	23.03015211	1.969848	25	0.002115385
5	908.17067	23.07886974	1.92113	25	0.002115385
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40	70.67439885	24.85049646	0.149504	25	0.002115385
41	45.82390239	24.90306482	0.096935	25	0.002115385
42	20.92083757	20.92083757	4.079162	25	0.002115385
43	0	0	25	25	
44	0	0	25	25	
45	0	0	25	25	
46	0	0	25	25	91
Total	505.3244917	1000	150	1150	

Reasons for finding Microfinance as an effective tool

- ✓ Many of the researches are conducted with the funding from the MFIs. Researchers are prescribed to show only impressive and encouraging results from the field.
- ✓ MFIs never disclose the discouraging results. Because there is chance of losing funding from the foreign donor & development agencies.
- ✓ When a foreign investigator wish to visit the microfinance operation in the field, they are exhibited only few pre-arranged development activities of the borrowers.
- ✓ Researches on microfinance are conducted with the help of data enumerators & researcher himself /herself visit the field rarely.
- ✓ Since almost all Bangladeshi citizen, bear a strong belief about the positive impact of MFPs, data enumerators are not an exception.
- ✓ To save time & to earn maximum wages from the number of interviews, data enumerators usually manipulate data.

Figure: Pattern of Monthly Income, Expenditure and Saving of the MFIs Members

