PhD Dissertation

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

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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
  - ≥ 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$125.57 billion.
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
Momona with President
Clinton (left) and
memory of Clinton’s gift
to her (right)

(Photo: William Vasta)

Successful
and
Empowered

Momona’s house
made by Grameen
Bank to show as
her success in
poverty alleviation

In May 2008
Interview with Momona & her husband
April 2008

Empowered?

Her Toilet (!!)

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?
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.
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

**Vicious circle of poverty**
- No income
- No savings
- No investment
- Poor health

**Financial Help Requirements**
- No income
- No savings
- No investment
- Poor health

**NGO-MFI Intervention**
- Microcredit
- Micro Savings
- Micro Insurance
- Housing Loan

**Outcomes**
- Income creation
- HH Maintaining
- Loan Repayment
- Savings & Insurance

**Borrowers' Graduation**
- Women's Empowerment
- Awareness
- Improved living standard
- Social wellbeing

**In Practice**
- Problem
  - No training
  - Loan misuse
  - High interest rate
  - Insufficient loan
  - Hard repayment policy

**Research Questions**
1. Can microfinance alleviate poverty?
2. Is interest rate justifiable?
3. Can it empower women beneficiaries?
4. Is Islamic MFP an alternative to conv. one?
KEY CONCEPTS OF MICROFINANCE

**Microcredit:**
- small loans (≤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.
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 *Joypura* located in the study areas.
Grameen Bank & BRAC presented *Joypura* 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

<table>
<thead>
<tr>
<th>Respondents</th>
<th>Financing Source</th>
<th>Affiliation</th>
<th>Dhaka</th>
<th>Mymensingh</th>
<th>Habiganj</th>
<th>Sherpur</th>
<th>Subtotal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Members</td>
<td>MFI</td>
<td>GrameenBank</td>
<td>38</td>
<td>40</td>
<td>38</td>
<td>44</td>
<td>160</td>
</tr>
<tr>
<td></td>
<td>NGO-based MFI</td>
<td>BRAC</td>
<td>28</td>
<td>35</td>
<td>40</td>
<td>42</td>
<td>146</td>
</tr>
<tr>
<td></td>
<td></td>
<td>ASA</td>
<td>8</td>
<td>32</td>
<td>42</td>
<td>38</td>
<td>122</td>
</tr>
<tr>
<td></td>
<td></td>
<td>TMSS</td>
<td>0</td>
<td>14</td>
<td>22</td>
<td>24</td>
<td>60</td>
</tr>
<tr>
<td></td>
<td>GO-based MFI</td>
<td>BRDB</td>
<td>2</td>
<td>8</td>
<td>0</td>
<td>20</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>Commercial bank</td>
<td>RDS</td>
<td>10</td>
<td>52</td>
<td>0</td>
<td>20</td>
<td>82</td>
</tr>
<tr>
<td>Non-members</td>
<td></td>
<td></td>
<td>14</td>
<td>30</td>
<td>28</td>
<td>28</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>100</td>
<td>211</td>
<td>170</td>
<td>216</td>
<td>700</td>
</tr>
</tbody>
</table>
Category of Respondents

(i) Active members group (n= 450)
Respondents, currently participating in 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: Bangladesh Poverty Map showing spatial poverty level

Present study covers spatial variation of poverty
Fig. Causes of Poverty in the Study Areas

(I) Individual Factors
- Illiteracy;
- Reluctant to work;
- Poor health & malnutrition;
- Higher dependency ratio
- Sudden death of HH head
- Chronic diseases and
- Chronic poverty,
  etc.

(II) Social Factors
- Exploitation;
- Lack of cooperative attitude;
- Gender inequality;
- Deprivation and
- Prejudice, etc.

(III) National Factors
- Lack employment;
- Corruption & Terrorism;
- Unequal distrbn of resources;
- Over population;
- Industrialization stagnancy;
- Undeveloped communication;
- Low per capita resource endowment

(IV) Political Factors
- Political instability;
- Ill governance
- Village politics
- Political pressure
- Political Violence
- Nepotism, etc.

(V) Climatic & Natural Factors
- Devastating flood
- River erosion;
- Droughts;
- Cyclones and Kalboishaki
- Environmental degradation
Pro-poor Social Safety-Net Programs under Government Sectors

Author's observation, 2010
# Current Status of NGO-MFIs

As of March, 2010

<table>
<thead>
<tr>
<th>Areas of Performance</th>
<th>Grameen Bank</th>
<th>BRAC</th>
<th>ASA</th>
<th>RDS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Members (million)</td>
<td>7.87</td>
<td>8.15</td>
<td>6.42</td>
<td>0.60</td>
</tr>
<tr>
<td>Outstanding (million US$)</td>
<td>2724.04</td>
<td>670.26</td>
<td>437.76</td>
<td>47.1</td>
</tr>
<tr>
<td>Rate of Recovery (%)</td>
<td>97.86</td>
<td>99.29</td>
<td>96.10</td>
<td>99.00</td>
</tr>
<tr>
<td>Members’ Savings (million US$)</td>
<td>989.98</td>
<td>238.91</td>
<td>162.52</td>
<td>19.19</td>
</tr>
</tbody>
</table>

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

- Grameen provides maximum loans
- BRAC represents 1/3 of total micro-borrowers
- 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.
<table>
<thead>
<tr>
<th>Organization</th>
<th>Website</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Palli Karma Sahayak Foundation (PKSF)</td>
<td><a href="http://www.pksf-bd.org/">http://www.pksf-bd.org/</a></td>
<td>Apex microcredit funding and capacity building organization. Provide microcredit to the poor through its partner organizations.</td>
</tr>
<tr>
<td>NGO Affairs Bureau (NGOAB)</td>
<td><a href="http://www.ngoab.gov.bd/">http://www.ngoab.gov.bd/</a></td>
<td>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.</td>
</tr>
<tr>
<td>Microcredit Regulatory Authority (MRA)</td>
<td><a href="http://www.mra.gov.bd/">http://www.mra.gov.bd/</a></td>
<td>Works under the central bank. Central body to monitor and supervise NGOs and MFIs. Ensure transparency &amp; accountability of MFIs’ microcredit activities.</td>
</tr>
</tbody>
</table>
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)

<table>
<thead>
<tr>
<th>Family Composition</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Respondents’ average age : 35.79 yrs</td>
</tr>
<tr>
<td></td>
<td>Family members varied from : 2 to 15</td>
</tr>
<tr>
<td></td>
<td>Male: Female : 3.10::3.30</td>
</tr>
<tr>
<td></td>
<td>Average family size : 6.40 persons</td>
</tr>
<tr>
<td></td>
<td>Dependency ratio : 1: 5.32</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Income &amp; Expenditure</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Average annual family income: BDT46465.00</td>
</tr>
<tr>
<td></td>
<td>Average expenditure : BDT45054.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Education</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All of the respondents can sign their names</td>
</tr>
<tr>
<td></td>
<td>Average schooling years: 2.411 yrs</td>
</tr>
<tr>
<td></td>
<td>Literacy rate :12.57%</td>
</tr>
</tbody>
</table>

Source: Field Survey, 2008

(June 2008, US$1 = BDT 68.52)
## Socioeconomic Profile of the Respondents (2/2)

| Gender Issues                  | 98% of households are male headed  
|                               | Borrowed money was operated by husband or sons  
|                               | Self-operation was a rarity.  
| Landholding                   | All respondents have at least homestead  
|                               | Average land holding per household: 0.19 ha  
| Occupation                    | 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)

<table>
<thead>
<tr>
<th>Groups</th>
<th>Amount Required</th>
<th>Amount Applied for</th>
<th>Amount Received</th>
<th>Loan Received</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>% of requirements</td>
</tr>
<tr>
<td>Top 81 Members</td>
<td>42520.00 (14996.92)</td>
<td>19680.00 (5399.32)</td>
<td>19680.00 (5399.32)</td>
<td>100.00</td>
</tr>
<tr>
<td>Active Members</td>
<td>32940.00 (8362.72)</td>
<td>23482.77 (10437.55)</td>
<td>13723.33 (9213.92)</td>
<td>58.44</td>
</tr>
<tr>
<td>Inactive Members</td>
<td>43540.00 (9474.369)</td>
<td>33720.00 (8285.81)</td>
<td>10466.67 (6737.922)</td>
<td>31.04</td>
</tr>
<tr>
<td>All (Active &amp; Inactive)</td>
<td>38240 (8918.545)</td>
<td>28601.39 (9361.68)</td>
<td>12095.00 (7975.92)</td>
<td>42.29</td>
</tr>
</tbody>
</table>

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

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

- About 62% members borrowed \( \leq \) BDT20,000
- Only 18% Active members borrowed \( \geq \) than BDT30,000
## Categories of Respondents according to different types of Poverty

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

- **86% members are Non-poor**

- 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

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Active Member</th>
<th>Inactive Members</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Freq</td>
<td>%</td>
<td>Freq</td>
</tr>
<tr>
<td>Repayment of old debts</td>
<td>290</td>
<td>64.44</td>
<td>142</td>
</tr>
<tr>
<td>Agro-support/based activities</td>
<td>140</td>
<td>31.11</td>
<td>82</td>
</tr>
<tr>
<td>Small trading</td>
<td>160</td>
<td>35.56</td>
<td>26.67</td>
</tr>
<tr>
<td>Poultry rearing</td>
<td>28</td>
<td>6.72</td>
<td>28</td>
</tr>
<tr>
<td>House building and repairing</td>
<td>26</td>
<td>6.22</td>
<td>26.67</td>
</tr>
<tr>
<td>Consumption</td>
<td>48</td>
<td>10.67</td>
<td>96</td>
</tr>
<tr>
<td>Meet medical expenses</td>
<td>58</td>
<td>12.89</td>
<td>36</td>
</tr>
<tr>
<td>Livestock rearing</td>
<td>26</td>
<td>6.22</td>
<td>2.67</td>
</tr>
<tr>
<td>Meet marriage expenses</td>
<td>20</td>
<td>4.67</td>
<td>0</td>
</tr>
<tr>
<td>Renting/mortgaged in farm land</td>
<td>24</td>
<td>5.33</td>
<td>0</td>
</tr>
<tr>
<td>Fish culture</td>
<td>21</td>
<td>4.67</td>
<td>1.33</td>
</tr>
<tr>
<td>Purchasing rickshaw</td>
<td>12</td>
<td>2.67</td>
<td>0</td>
</tr>
<tr>
<td>Lend money on interest</td>
<td>12</td>
<td>2.67</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>1161</td>
<td>100</td>
<td>499</td>
</tr>
</tbody>
</table>

- 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

<table>
<thead>
<tr>
<th>Factors</th>
<th>Active members (n=450)</th>
<th>Inactive members (n=150)</th>
<th>All (N=600)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
<td>Percent</td>
<td>Frequency</td>
</tr>
<tr>
<td>To get further loan in big amount</td>
<td>422</td>
<td>93.78</td>
<td>150</td>
</tr>
<tr>
<td>Self consciousness</td>
<td>72</td>
<td>16.00</td>
<td>3</td>
</tr>
<tr>
<td>Supervision and monitoring by field officers</td>
<td>42</td>
<td>9.33</td>
<td>0</td>
</tr>
<tr>
<td>Pressure of group members</td>
<td>58</td>
<td>12.89</td>
<td>47</td>
</tr>
<tr>
<td>Pressure of filed officers</td>
<td>43</td>
<td>9.56</td>
<td>10</td>
</tr>
<tr>
<td>Ease of payment through installments</td>
<td>87</td>
<td>19.33</td>
<td>2</td>
</tr>
<tr>
<td>Sufficient earning from MCPs for loan payment</td>
<td>90</td>
<td>20.00</td>
<td>2</td>
</tr>
</tbody>
</table>

- For getting bigger loan repayment rate increases
- Supervision and monitoring do not work
- IGAs taken with MFPs have contribution?
Figure: Self-evaluation about Family Food Security by the Respondents (in percentage)

- Surplus for investment after meeting requirements:
  - Non-members: 0
  - Inactive Members: 2.66
  - Active Members: 8

- Surplus for future consumption:
  - Non-members: 0
  - Inactive Members: 4
  - Active Members: 10

- Adequate:
  - Non-members: 1.33
  - Inactive Members: 9.11
  - Active Members: 15

- No Deficiency:
  - Non-members: 4
  - Inactive Members: 8.22
  - Active Members: 28

- Occasional deficiency:
  - Non-members: 30
  - Inactive Members: 35.33
  - Active Members: 35.11

- Severe deficiency throughout the year:
  - Non-members: 30
  - Inactive Members: 40.89
  - Active Members: 59.33
Figure: Types of Housing Enjoyed by the Respondents
### Housing Status of the Respondents

<table>
<thead>
<tr>
<th>Type of housing</th>
<th>Active Members</th>
<th>Inactive Members</th>
<th>Non-members</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>n</td>
<td>%</td>
<td>n</td>
<td>%</td>
</tr>
<tr>
<td>Jhupri</td>
<td>5</td>
<td>1.11</td>
<td>4</td>
<td>2.67</td>
</tr>
<tr>
<td>Katcha house</td>
<td>374</td>
<td>83.11</td>
<td>138</td>
<td>92.00</td>
</tr>
<tr>
<td>Tin-shade</td>
<td>59</td>
<td>13.11</td>
<td>8</td>
<td>5.33</td>
</tr>
<tr>
<td>Semi Pucca</td>
<td>12</td>
<td>2.67</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>450</td>
<td>100</td>
<td>150</td>
<td>100</td>
</tr>
</tbody>
</table>

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)

Non-members’ economic status is better than inactive members.

Inactive members cannot repay their indebtedness by selling all their properties they made.
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

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

Source: Field Survey, 2008

- Lowest interest charged by RDS
- Lowest number of weekly installments by ASA
- Much difference between interest receiving & paying
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

<table>
<thead>
<tr>
<th>Lending Sources</th>
<th>Announced Interest Rate</th>
<th>Effective Interest Rate</th>
<th>Effective Interest Rate Incl. Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grameen Bank</td>
<td>11.00</td>
<td>33.56</td>
<td>36.59</td>
</tr>
<tr>
<td>BRAC</td>
<td>12.50</td>
<td>46.38</td>
<td>51.31</td>
</tr>
<tr>
<td>ASA</td>
<td>12.50</td>
<td>30.68</td>
<td>36.68</td>
</tr>
<tr>
<td>RDS</td>
<td>7.50</td>
<td>23.83</td>
<td>27.76</td>
</tr>
<tr>
<td>Informal sources</td>
<td>33-120</td>
<td>50-150</td>
<td>50-150</td>
</tr>
</tbody>
</table>

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

Sir Fazle Hasan Abed Conferred Knighthood

Poor waiting for Relief

Grameen Bank HQ

BRAC Center
Cost per taka (money lent)

Case of ASA

Service charge is at least 10 times higher than cost involved
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

119, 26%
326, 73%
5, 1%

Fig. Active and Inactive Members

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

Fig: Inactive Members

7, 5%
1, 1%
142, 94%

126, 21%
6, 1%
468, 78%
Encountering arguments (1/2)

Argument 1: Higher costs for small loans
- Commercial banks rates are lower than MFI rates, e.g. RDS ≤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**
MFI's 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

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

- **Community, Social and political participation**: Score range: 0-24
  - Non-members: 5.19
  - Inactive Members: 7.1
  - Active Members: 7.28
  - Active members improved than Non-members

- **Cosmopoliteness**: Score range: 0-30
  - Non-members: 7.19
  - Inactive Members: 7.43
  - Active Members: 7.54

- **Relative freedom from domination and violence**: Score range: 0-18
  - Non-members: 5.02
  - Inactive Members: 7.38
  - Active Members: 7.1

- **Economic security**: Score range: 0-15
  - Non-members: 2.35
  - Inactive Members: 3.53
  - Active Members: 3.76

- **Independent purchasing capability**: Score range: 0-24
  - Non-members: 7.06
  - Inactive Members: 9.27
  - Active Members: 9.5
  - Non-members achieved more than Active and inactive members

- **Decision making ability**: Score range: 0-30
  - Non-members: 7.5
  - Inactive Members: 10.83
  - Active Members: 10.7
# Categories of women according to their status of overall empowerment with and without participation

<table>
<thead>
<tr>
<th>Categories and score range</th>
<th>Percentage</th>
<th>Mean and std. dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Active (n=450)</td>
<td>Inactive (n=150)</td>
</tr>
<tr>
<td>Very low empowerment (up to 47)</td>
<td>66.00</td>
<td>69.30</td>
</tr>
<tr>
<td>Low empowerment (48 to 71)</td>
<td>13.78</td>
<td>22.70</td>
</tr>
<tr>
<td>Medium empowerment (up to 72 to 94)</td>
<td>17.11</td>
<td>8.00</td>
</tr>
<tr>
<td>High Empowerment (Above 94)</td>
<td>3.11</td>
<td>0.00</td>
</tr>
<tr>
<td>Total</td>
<td>450</td>
<td>150</td>
</tr>
</tbody>
</table>

MFPs fail to empower their women beneficiaries

Non-members improved or at least sustained their empowerment status

**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

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

* based on active and Inactive members

Nine variables had significant positive relationships.

Variables like duration of participation, training received and purdah use did not in fact show any significant relationship.
Stepwise Multiple Regression Analysis Showing Variation of Women’s Empowerment Score Explained by Different Factors

<table>
<thead>
<tr>
<th>Model</th>
<th>Variable entered</th>
<th>Multiple R</th>
<th>Coefficient of determination $R^2$</th>
<th>% of variation expressed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Education of husband / household head</td>
<td>0.848</td>
<td>0.719</td>
<td>71.9</td>
</tr>
<tr>
<td>2</td>
<td>Attitude of male partner towards empowerment</td>
<td>0.872</td>
<td>0.760</td>
<td>4.1</td>
</tr>
<tr>
<td>3</td>
<td>Education</td>
<td>0.882</td>
<td>0.779</td>
<td>1.9</td>
</tr>
<tr>
<td>4</td>
<td>Contribution to household</td>
<td>0.890</td>
<td>0.792</td>
<td>1.3</td>
</tr>
<tr>
<td>5</td>
<td>Age</td>
<td>0.896</td>
<td>0.803</td>
<td>1.1</td>
</tr>
<tr>
<td>6</td>
<td>Training received</td>
<td>0.997</td>
<td>0.805</td>
<td>0.2</td>
</tr>
<tr>
<td>7</td>
<td>Yearly annual income</td>
<td>0.997</td>
<td>0.834</td>
<td>2.9</td>
</tr>
</tbody>
</table>

Source: Results of authors’ analysis (2023)

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

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Conventional Microfinance</th>
<th>Islamic Microfinance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source</td>
<td>General economics</td>
<td>Islamic economics</td>
</tr>
<tr>
<td>Principle</td>
<td>Interest based</td>
<td>Profit based</td>
</tr>
<tr>
<td>Risk sharing</td>
<td>Not applicable</td>
<td>Applicable</td>
</tr>
<tr>
<td>Profit and loss sharing</td>
<td>Not applicable</td>
<td>Applicable</td>
</tr>
<tr>
<td>Mode of investment</td>
<td>In cash</td>
<td>In kind</td>
</tr>
<tr>
<td>Ownership transfer</td>
<td>At the time of loan handover</td>
<td>On full repayment of loan</td>
</tr>
</tbody>
</table>
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)

<table>
<thead>
<tr>
<th>Opinions</th>
<th>Muslim (N=70)</th>
<th>Non-muslim (N=12)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mean</strong></td>
<td><strong>SD</strong></td>
<td><strong>Mean</strong></td>
</tr>
<tr>
<td>Islamic in character and it does not deal with interest</td>
<td>4.31</td>
<td>2.00</td>
</tr>
<tr>
<td>RDS charges lower profit (interest) compare to conventional NGO-MFIs</td>
<td>4.23</td>
<td>4.17</td>
</tr>
<tr>
<td>RDS is nearer to our dwelling houses</td>
<td>3.18</td>
<td>3.67</td>
</tr>
<tr>
<td>Flexibility in weekly installment payment system of RDS</td>
<td>4.08</td>
<td>3.91</td>
</tr>
<tr>
<td>Good behavior of the RDS field officers to their clients</td>
<td>4.03</td>
<td>4.00</td>
</tr>
<tr>
<td>Borrowing from bank is preferable than NGOs</td>
<td>4.375</td>
<td>4.02</td>
</tr>
<tr>
<td>No scope of mixing unknown male persons in unknown places</td>
<td>3.30</td>
<td>2.67</td>
</tr>
<tr>
<td>No barriers in practicing <em>Purdah</em></td>
<td>3.83</td>
<td>2.00</td>
</tr>
</tbody>
</table>

**Scale:** 1=strongly disagree; 2=disagree; 3=no opinion; 4=agree; 5=strongly agree.
## Respondents’ Perception towards Islamic MFPs (2/2)

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

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.
CHAPTER 10: SUMMARY, CONCLUSION AND RECOMMENDATIONS
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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Thank You!
**Calculation of Effective Interest Using Flat Method**

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% 

<table>
<thead>
<tr>
<th>Week #</th>
<th>Outstanding balance</th>
<th>Amount of Installment payments</th>
<th>Interest Rate Rate Weekly</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Principal</td>
<td>Interest</td>
</tr>
<tr>
<td></td>
<td>A2 = A1-B1</td>
<td>B1=D1-C1</td>
<td>C1 = B1xE1</td>
</tr>
<tr>
<td>1</td>
<td>(A1) 1000</td>
<td>(B1) 22.88461538</td>
<td>(C1) 2.115385</td>
</tr>
<tr>
<td>2</td>
<td>(A2) 977.1153846</td>
<td>22.93302515</td>
<td>2.066975</td>
</tr>
<tr>
<td>3</td>
<td>954.1023595</td>
<td>22.90153732</td>
<td>2.016463</td>
</tr>
<tr>
<td>4</td>
<td>931.2008222</td>
<td>23.03015211</td>
<td>1.969848</td>
</tr>
<tr>
<td>5</td>
<td>908.17067</td>
<td>23.07866974</td>
<td>1.92113</td>
</tr>
<tr>
<td></td>
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<td>40</td>
<td>70.67439885</td>
<td>24.85049646</td>
<td>0.149504</td>
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<tr>
<td>41</td>
<td>45.82390239</td>
<td>24.90306482</td>
<td>0.096935</td>
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<tr>
<td>42</td>
<td>20.92083757</td>
<td>20.92083757</td>
<td>4.079162</td>
</tr>
<tr>
<td>43</td>
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<td>44</td>
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<td>0</td>
<td>25</td>
</tr>
<tr>
<td>46</td>
<td>0</td>
<td>0</td>
<td>25</td>
</tr>
<tr>
<td>Total</td>
<td>505.3244917</td>
<td>1000</td>
<td>150</td>
</tr>
</tbody>
</table>
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 loosing 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

- Monthly Income
- Monthly Expenditure
- Monthly Saving

<table>
<thead>
<tr>
<th>Group</th>
<th>Monthly Income</th>
<th>Monthly Expenditure</th>
<th>Monthly Saving</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active Member</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inactive Member</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-member</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>