

Micro finance: Reaching the hard core poor

MAHBUBUL ISLAM KHAN

THE microfinance sector in Bangladesh underwent a phenomenal growth over the past one and a half decades both in terms of outreach and loan portfolio. According to recent statistics from the Credit and Development Forum (CDF), the total number of active members of Microfinance Institutions (MFIs) exceeds 14 million, and taken together, the portfolio outstanding of these MFIs stands at around Tk. 45 billion. A number of factors contributed to this unprecedented growth in poverty-focused group-based microfinance programmes. Important of these are ready availability of the *Grameen* model and easy replicability of its key features (e.g. formation of small groups, collateral free loans, joint liability for loan repayment and small repayment installments), strong presence of a large number of NGOs that launched and scaled up microfinance programmes, huge demand for microfinance services by the poor and continued support from the government and the development partners. Evidence that microfinance programmes can make a dent on poverty and the potential of attaining financial viability (earning adequate interest income to cover financial and transaction costs of loan funds, if managed properly) also motivated many organizations to embark on and scaling up microfinance programmes.

Despite remarkable successes of the *Grameen* Bank and many Bangladeshi NGO-MFIs in general, and BRAC, ASA and Proshika in particular, in increasing outreach of microfinance services, there have been growing evidences of under-representation of the hardcore poor in their clientele groups. Also there were reports of considerable leakage of micro-credit to the non-poor with indications that the non-poor were often included at the expense of the hardcore poor.

Reasons for under representation of the hardcore poor

There are three major reasons that can help explain this under-representation of the hardcore poor in microfinance programmes. The first reason operates from the supply side and relates to targeting. In enrolling members, most MFIs put emphasis on whether a potential member falls below a pre-determined poverty line. The question of how far s/he falls below the poverty line receives little attention. The second reason operates from the demand side and is related to programme implementation and design biases. Some of these

biases caused a significant portion of the hardcore poor to shy away from the microfinance programmes. The third reason relates to appropriateness of microfinance services as a section of the hardcore poor seemingly finds no relevance of microfinance services in their practical life and therefore, have no desire for joining in microfinance groups.

In an attempt to better understand how the above-mentioned reasons operate, let us first examine who constitute the hardcore poor and how big are they in size.

Targeting the hardcore poor

Although poverty can easily be

depth of poverty i.e. the distances they fall below the poverty line. More below one falls from the poverty line, poorer s/he is. This led to the use of a second poverty line, which was set at 1805 k. calories. A number of terms are used to name those who fall below the second poverty line including hardcore poor, extreme poor or ultra poor. No matter what we call this group of poor, the striking fact remains that they make up almost a quarter of the entire population of Bangladesh. Another aspect of poverty that is being discussed is its dynamic nature. This refers to the propensity of poor households falling further below and rising above the poverty line.

defining and determining the eligibility for joining a microfinance programme. Although land ownership criterion, if applied properly, can mostly distinguish between poor and non-poor, this criterion is not sensitive to depth of poverty and thus largely unable to distinguish between extreme poor and not so poor. MFIs, therefore, need to devise targeting strategies and develop tools to distinguish hardcore poor from the moderately poor. Some participatory methods and tools for example, village transect walk, focus group discussions (FGD), wellbeing analysis — where villagers get an opportunity to categorize themselves in different

paying regular loan installments and with a commitment for collective responsibility for loan repayments, inclusion of hardcore poor means inviting trouble in the future. Understandably, many MFIs prefer that the recipients of microfinance services should have permanent addresses. A considerable proportion of the hardcore poor does not own any land (even homestead). They live in temporary settlements built in land owned by others including the government and remain under perceived or real threats of eviction. Such a preference by MFIs restricts participation of the hardcore poor even though they actively participate in economic activities.

as such loans are viewed risky. Time is now ripe to test whether there is really a trade off between servicing various financial needs (e.g. investment and consumption loans, flexible savings and insurance) of the hardcore poor and attaining financial sustainability. Such pilots are to test and develop innovative credit products (e.g. consumption loan tied with an investment loan) as well as cost saving institutions (e.g. building capacity of matured groups to handle savings and credit themselves, which will then allow MFIs wholesaling loan funds to groups). In the name of financial sustainability, there is no escape from servicing financial needs of the hardcore poor, given their large size and the fact that microfinance could make a difference between hope and two-meal a day life with hope and aspirations. With regard to withdrawal of savings, most MFIs allow withdrawal of savings only after full repayment of loan. Open savings and withdrawal facility with opportunity to save any amount and withdraw the balance within a short notice will attract more hardcore poor in microfinance programmes. The hardcore poor do save. Therefore, a portion of them might be interested to save with MFIs only. Currently, a potential borrower can only save with most MFIs.

Some important features of the mainstream microfinance services are formation of small groups of people who have a common desire to access financial services, collective responsibility for loan repayment, compulsory weekly or biweekly savings and loan repayment installments often starting only one or two week(s) after disbursement of loans. Loans are mostly given for a year to undertake a wide range of activities. For major MFIs, non-farm activities dominate the loan portfolios and petty trading tends to be the single largest activity.

It is now increasingly felt that conventional credit and savings products offered by MFIs are not that attractive to the hardcore poor. This is one of the reasons, why a significant portion of them, shy away from microfinance programmes. For example, rigid loan terms do not appear friendly to them. Loans, which are due, soon one or two week(s) after the disbursements, suit only those who can manage weekly/bi-weekly installment amounts from their normal cash flow as returns from most activities undertaken by loan start much latter. Therefore, they are unlikely to come from hardcore poor households. Extended repayment periods and flexibility in repayments (seasonal or 3-4 repayment installments aligned with the income stream of the investment or of the credit recipient family) are likely to attract more hardcore poor. Hardcore poor also need loans for consumption smoothing, particularly in lean periods. At present, MFIs do not offer consumption loans

New and innovative microfinance programmes, which cater to the needs and priorities of the hardcore poor, are expected to attract a large portion of the hardcore poor. These hardcore poor are likely to be able-bodied with a minimum resource base (e.g. homestead) and active participants in income earning activities. However, microfinance in its current forms and with all innovations perhaps will not be able to attract a section of the hardcore poor, who lack confidence and skills to take part in economic activities. For example, microfinance does not appear a feasible option for a section of the hardcore poor, which includes beggars and floating population. We need to give them access to resources (e.g. khas land and open water bodies) and provide subsidized skills development and confidence building training first in order to groom them up to participate in microfinance programmes. Medical treatment facility is needed for chronically ill population in order to bring them back to economically active life. And in order to integrate the disabled persons into the economy, we need innovative comprehensive programmes where microfinance can form a component.

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observed in Bangladesh, which contains plenty of it both in depth and breadth, academic debates on how best to define poverty and categorize poor still continue. In defining the poor, some analysts emphasize on economic variables (e.g. inadequate household income and assets), others on powerlessness and lack of participation. While some argue that poverty is purely relative and blame inequality (which is further growing) as the major underlying cause. There has also been increasing support for the group, which attempts to draw attention on the notion of feminization of poverty putting forward evidences, supporting that the burden of poverty falls disproportionately on women. This group focuses on the socially defined role of women and *intra*-household power relations between sexes and age groups and how these relations influence family decision-making processes and access to resources and services.

Many Bangladeshi researchers and government agencies use an income measure based on nutritional intake in defining the poor. If a household income is inadequate to provide food for 2,120 k. calories per person per day, then the household members are considered poor. It is widely believed that more than 50 per cent of around 130 million Bangladeshis fall into this group. Many researchers defined this group as absolute poor. However, not all people falling below the poverty line are equally poor. Therefore, poor could further be sub-grouped depending on the

The incidence of extreme poverty is higher in areas that are backward economically and more vulnerable to natural calamities (e.g. river erosion, floods). Totally landless labourers, women headed households, households with high dependency ratio (relatively large household depending on a single earner), adult members with disability and chronic illness, households living in fully thatched houses, floating population with no place to stay and beggars tend to be the extremely poor. A relatively high incidence of poverty also exists in remote places that are poorly connected to local growth centers (e.g. local bazaar and town centers).

Now how do MFIs operationalize these definitions to distinguish the poor from the non-poor or from the hardcore poor to moderately poor? While enrolling members for microfinance services, for good practical reasons, most MFIs use an index based either on asset (usually land) and/or income and/or both. For example, *Palli Karma Sahayak* Foundation (PKSF), an apex institution that wholesales financial and management services to most of the key players in the microfinance sector requires that the end recipients of loans are to be "landless and assetless" households. PKSF defines as "landless and assetless" those households who own no more than half an acre of farmland or whose monetary value of assets owned do not exceed the price of an acre of land in the local area. In practice, member selection criterion narrows down to land ownership and this criterion is widely used for

groups (e.g. very poor, poor, bottom middle, middle, rich and very rich) — could be effective in targeting the hardcore poor.

Biases in programme implementation and design

Usually, the opening of a new branch of an MFI follows a feasibility exercise, which looks into, among others, the presence of a scheduled bank branch in local area as the MFI needs the services of a bank for cash deposits, withdrawal, and for receiving and transferring funds. Branches of scheduled banks are mostly located in local growth centers that are reasonably connected with paved roads. Therefore, MFI branches also tend to locate in local growth centers and serve those who live in proximity. This introduces a bias against the hardcore poor as the incidence and severity of poverty tends to be lower among the communities living in and around a growth center. Thus remote, relatively inaccessible areas which suffer from high incidence of extreme poverty remain underserved.

Upon selecting a village, potential credit recipients are tentatively identified and encouraged to form their own groups. These groups need recognition from the concerned MFI in order to admit to membership and qualify for loans. At the group formation stage, a tendency to bypass the hardcore poor is observed among the moderately poor. The reason for this is a common perception that extreme poor have higher chances to fail in

or Iraq.

Amman became temporary headquarters of international media to cover Gulf War. Consequently plight of the refugees came under spotlight. Capitals were moved. International community expedited their contribution or flight commitment to fly out the stranded migrants to safety. IOM became coordinator and lead agency to charter as well as to allocate flights to move out migrants to their home destinations. Our close liaison with IOM camp office in Amman paid us rich dividend. Bangladesh received the highest number of flights in the shortest possible time. An estimated 22 million dollar was spent to fly out about 70,000 Bangladesh migrants from September to November 1990. At the successful repatriation of the displaced migrants of Gulf crisis IOM became a high visible inter-governmental organization to provide rapid humanitarian response to sudden flows of migrants and aid to those in distress. But Bangladesh was not a member of IOM till then.

In the midst of repatriation in Amman I strongly pleaded that Bangladesh should become a member of IOM to which Ministry of Foreign Affairs readily consented. I was authorized to contact James N. Purcell, Director-General of IOM in Geneva who instructed an IOM team from Amman camp office to visit Bangladesh. After their visit to Dhaka in October 1990 Bangladesh became member of the IOM on 27 November 1990.

The Amman repatriation brought into sharp focus realization that Bangladesh with an estimated 13 million unemployed hands and fragile infrastructure amply justify presence of IOM to build its capacity for orderly migration to benefit the society. IOM, therefore, took the imaginative step to establish a regional office in Dhaka in August 1998, the first in South Asia focusing, among other activities, [a] strengthening labour migration process [b] combating trafficking in woman and children, [c] movement assistance including resettlement, repatriation, transportation and post emergency assistance, [d] technical cooperation and capacity building, [e] migration information analysis and dissemination, in particular public information campaigns, [f] research related to migration management and other services.

It is heartening to note that an ace diplomat of Bangladesh Shahidul Haque has recently been appointed by IOM headquarters as the third Regional Head of the Dhaka office who has generated considerable enthusiasm among the institutions

related to manpower sector.

To assist the Government of Bangladesh in strengthening its labour migration policies and processes IOM Regional office in Dhaka commissioned a series of studies in conjunction with the Ministry of Labour and Employment. These studies provided a sound basis for development and implementation of targeted corrective programmes aiming to place Bangladesh labour migration policies and process on a par with other major manpower exporting countries on the world market.

In this context mention may be made of the Refugee and Migratory Movement Research Unit [RMMRU] of Professor Tasneem Siddiqui and C R Abrar of Dhaka University for their pioneering work in this hitherto neglected sector but of utmost importance to national economy. With funding of IOM and UNDP the following studies were completed: [1] Recruitment and Placement of Bangladeshi Migrant Workers, [2] Streamlining the Labour Recruitment Process in Bangladesh, [3] Contribution of Returnees, [4] Transcending Boundaries: Labour Migration of Women from Bangladesh and another [5] Study on Manpower Deficiency in Bangladesh and Highly Qualified Nationals Abroad by Dr. RaisulAwal Mahmood.

An estimated 3.25 million Bangladesh nationals in one way or the other are toiling abroad to remit in an average of two billion dollars through formal channel per year. Another substantial amount reach home through informal outlet. If the cost in foreign exchange of import of raw materials for the Ready Made Garment (RMG) sector is taken out of its gross income, the manpower sector stands out as the single most important hard currency earner for the fledgling economy of Bangladesh. The two billion dollar Golden Goose is sick of neglect and is in need of immediate care and nursing.

IOM is mandated to provide technical assistance and capacity building to member countries. Government of Bangladesh should seize the opportunity available at doorstep to form a committee to harmonize the studies made, circulate the consolidated findings to Bangladesh Embassies in Labour importing countries for their views and then to follow up by organizing a meeting in Dhaka of Labour Attaches and Bangladesh Ambassadors in the ten Labour importing countries to formulate the strategy. The last such meeting was held in the Capital in 1994 to the immense benefit to labour export.

In the aftershock of attack on American twin towers the RMG sector is in disarray throwing a few lacs of women workers virtually on the street. These women have been empowered and a provision may have to be made to find alternative employment for them. Their orderly

migration can be an immediate agenda for the government and here who can serve better than IOM.?

M. Shafiqullah is a former Ambassador.



All health information to keep you up to date

Believe it or not!

- * Fingernails grow four times faster than toenails.
- * Nails grow faster in summer than in winter.
- * In our body there are over 650 muscles. It takes at least 14 muscles to smile.
- * Each and everyday more than 2500 gallons of air flows through the average adult's nose.
- * The nose (of human being) can recognize up to 1000 different smells (dog's one much more stronger).
- * Dark hair grows faster than light coloured hair (Asian's hair faster than the European's).
- * Each hair on the scalp grows about 12.7 cm (5 inches) a year.

Next: Eat, drink, walk and don't smoke

Primary education for the down-trodden

A private initiative case study

R I SHAMIM

THEY belong to the down-trodden section of society.

They are destitutes and orphans, under-privileged boys and girls who toil to earn a pittance for survival. But they are also students diligently pursuing study, at Choyonika Biddypath, Purana Paltan, Dhaka. The Biddypath imparts them free primary education. They take lessons in three shifts: Arabic and religious study from 6 am to 8 am and general education from 9 am to 12-10 pm and again from 2 pm to 5-10 pm everyday from Sunday to Thursday.

The teachers, especially headmaster A K Al-Mamun who is also the founder of the school, takes all care that none drops out under any circumstance. A laudable effort indeed.

The school holds annual prize giving ceremony and books and kits distribution ceremony inviting guardians besides the students to encourage them all towards education. And as the encouraged students routinely pursue and finish their primary level schooling, they feel enthusiastic to continue further study getting admitted to different high schools. This deserves to be sustained.

It may be mentioned here that rather imbibed with the motive of social service, particularly imparting education to destitute and orphan

working children, A K Al-Mamun started the school in a modest way at his own house in 1978 while he too was a student. He obtained his degree in commerce from Dhaka College in 1983. He persuaded slum dwellers to send their wards to his school and continued his drive through obstacles and hindrances as usual. His efforts yielded result. Students started coming gradually in growing numbers for free primary education provided by Mr Mamun. Meanwhile, Choyonika, a socio-cultural organisation has extended assistance to this laudable enterprise.

Free primary education, although mainly a government responsibility, NGO initiatives have often proved better in discharging it effectively. BRAC schools are replicable examples. In such a vast domain of primary education, small initiatives like Choyonika Biddypath may not bear much significance or be marked as such. But small ventures also yield results, often worthy of citation. And efforts like that of Choyonika's Mr Mamun deserves replication by individuals imbued with similar motive of social service. A large number of small units together may yield such considerable result as may bring significant change in the state of primary education in the country. As such, institutions like Choyonika also deserve government support for sustenance and growth to the ultimate benefit of the society.



Annual prize giving ceremony at Choyonika Biddypath

IOM: Bangladesh perspective

M. SHAFIULLAH

ESTABLISHED in 1951 initially as an Intergovernmental Committee for European Migration to help solve the post Second World War problems of migrants, refugees and displaced persons in Europe and to assist in their orderly Trans-Atlantic migration, International Organization for Migration [IOM] over years expanded to embrace a wide variety of migration management activities. From European Committee it transformed into IOM in 1989 to reflect its progressively global outreach in terms of geographical coverage as well as programme activities. In December 2001 IOM celebrated 50th anniversary of service to humanity encompassing all continents. While not part of UN system, IOM maintains close working relations with the United Nations bodies and operational agencies. IOM has as partners a wide range of international and non-governmental organizations.

Bangladesh had her brush with International Organization for Migration [IOM] during the Gulf crisis when Saddam Hussein invaded Kuwait in blitzkrieg on second August 1990. The turmoil created one of the worst human dislocations in the recent history of conflicts. In confusion, uncertainty and anxiety expatriates of many nationalities in their thousands headed towards the no man's land between Iraq and Jordan for safety. The migrant workers of Bangladesh, India, Pakistan, the Philippines and Sri Lanka joined the human waves. The kingdom of Jordan opened two emergency camps close to border to hold the

