

A four-day Asia-Pacific Region Microcredit Summit is going to be held in Dhaka from 16 to 19 February. We print these special articles for information of our esteemed readers on the subject. We shall try to publish more articles on the subject till the start of the summit.

## Tackling poverty through micro finance

F. H. ABED

ACKLING poverty and raising the living standards of Bangladesh's citizens requires changing entrenched social and economic structures. BRAC's Development Program was designed to offer poor rural women with the means to overcome systemic challenges and improve their lives and the lives of their families for the long term. Offering collateral free micro finance loans and saving accounts is an important initial strategy. Indeed, access to life saving funds can be viewed as a fundamental human right, even for the poorest of the poor. That is why BRAC loans to women who own less than .5 acres of land and mandatory savings accounts allow the poor of Bangladesh to establish a small store, buy a milk cow, or raise chicks as a source of continuous income.

BRAC's micro finance program aims to empower women by giving them economic resources, and also by recognizing that they are the best agents of their families' well-being. BRAC views its micro credit clients as partners in development. We learn from the women we lend to that it is possible to manage limited resources efficiently, and that our lendees will almost always repay their loans on time. We have also learned the importance of partnerships between and among communities of women in the Village Organizations. These women support each other, motivate each other, and ensure that collectively their families and their village is better off as a result of the opportunity to borrow.

Truly effective empowerment and development requires a holistic approach. That means that micro finance clients must be educated enough to put their loans to the best use, must understand their rights, remain healthy, and be confident enough to establish a means of income generation. That is why BRAC's strategy also includes human rights and legal education courses, provision of legal aid clinics, use of popular theatre to raise awareness and offer solutions to social problems, and household visits by volunteer health workers. We provide training for gender equity, conscientization, and awareness building that helps create an enabling environment in which the poor can participate in their own development.

In addition to capacity building, poverty alleviation strategies must also offer support in terms of inputs, rural transport, and marketing. BRAC established a number of program support enterprises in recognition of the fact that rural markets were not sufficiently advanced to provide all of the inputs required by our individual micro finance clients. How could we expect women to become productive and self-sustainable farmers if there was nowhere for them to buy seeds? We wanted our loans to promote handicraft production, but reaching the urban market was not possible without outside help. We also wanted to make use of new technologies that would make traditional activities more lucrative. We have developed high yielding varieties of birds, vaccination, hatchery, and chick rearing units in poultry. We have improved varieties of mulberry trees, and made use of hybrid seeds in crop production. BRAC has also instituted linkages between producers and consumers, and assisted with the entire process of income generation. For example, we have started seed processing and market-

ing centres, fish and prawn hatcheries, and a dairy plant. BRAC collects milk from farmers, chills it in chilling plants, and sells it under the brand name of Aarong milk. BRAC financed hatcheries sell day old chicks to women who rear them as broilers or layers, and then sell them to consumers as well as BRAC hatcheries. Ayesha Abed Foundation provides training and space for women to make traditional handicrafts, while Aarong retail outlets sell their products to a national and international market. BRAC's Vegetable Export Program links poor Bangladeshi farmers with international buyers, with a focus on vegetables that have a high demand in the European markets. All of these enterprises have increased the production and profits of BRAC's individual micro finance clients.

Small enterprise development is another important component of BRAC's micro finance strategy. Recognizing that overall economic improvement in Bangladesh requires strong local industries, we provide loans and technical assistance to small enterprises with growth potential. Without BRAC's assistance, these businesses would not have had access to the necessary start-up credit. We also encourage women to get involved in non-farm enterprises simultaneously with their domestic work. These enterprises require small spaces, and can be even done from home. Some examples include a bakery, candle making, mosquito coil factory, and a sandal factory.

BRAC's Urban Program has begun extending credit options to poor slum dwellers and garment workers. The loans have given urban women the option to earn an income through tailoring, grocery, catering, and small trade.

Until recently, the ultra poorest 10% of the Bangladeshi population could not take advantage of our micro finance loans. They were so desperate that the risk of taking out a loan and the requirement of a savings account kept them out of mainstream development efforts. These people initially needed wage employment rather than credit for self-employment. We are now trying to bring them into our system. BRAC's newest program uses a specific method for identifying the ultra poor. We then provide them with initial assets, health care, and enterprise development training. BRAC also provides social development and awareness raising. Once these ultra poor have been successfully established in an enterprise of their choosing, they can take advantage of micro finance options to further their business and increase profits.

The Asia/Pacific Regional Microcredit Summit Meeting of Councils is being held in Dhaka this month in recognition of micro finance's key role in alleviating poverty. NGO leaders, private corporations, donor agencies, and multilateral organizations from around the world will be gathering together to discuss approaches to implementing micro finance programs, and brainstorming ways to overcome problems. All of the participants have extensive experience with micro finance, and I am hopeful that this conference will provide us with new inspiration and make BRAC's programs even more effective in helping the poor.

F. H. Abed is Chairperson, BRAC

## Microcredit: Giving the poor a chance

DR SALEHUDDIN AHMED

MORE than 200 years back, Adam Smith, in his book 'Wealth of Nations' said, "Money begets money. When you got a little, it is often easy to get more. The great difficulty is to get that little." It is very difficult for the poor people to get small amount of working capital from the formal banking system. They actually require collateral free working capital and that is why microcredit has become one of the significant tools for poverty alleviation.

Microcredit may be broadly defined as a programme that provides credit for self-employment and other financial and business services including savings and technical assistance to the poor people. Microcredit has following features, 1. credit for the poor 2. collateral free 3. small size of loans and 4. used mainly in self-employment. In recent years, microcredit, known in its wider dimension as microfinance, has become a much-favoured intervention for poverty alleviation in the developing and least developed countries.

In different countries, poor are defined through their per capita income and assets. The size of the loan is small but the 'smallness' varies from country to country. In Bangladesh, the average loan is about \$150 but in a country like Mexico or Argentina it is about \$500. Although microcredit is used widely for self-employment, but in a progressive and continuous stream of financing a self-employed person can take an initiative to set up a micro-enterprise, where family members and outsiders may also be employed as wage labourers.

Globally, microcredit is being practised by various government, non-government and specialised organisations. By the end of December 2002 about 67.6 million clients were covered by microcredit and out of that Asia's share was 59.6 million. Out of Asia's share, Bangladesh has got about 15 million clients.

Now the question arises when the system microcredit was first introduced. Tradition of lending money in this part of the world is an age old practice. At early stage, people could borrow money from conventional moneylenders and formal banking system. Just after the liberation, various discussions were held on how poor people could get loans at an easy way.

During the late 1970s, when the 'Jobra' experiment was underway

under Professor M Yunus, the 'dheki rin prokolla' was initiated by the Bangladesh Bank in collaboration with Swarnirvar Bangladesh, and several other pilot schemes were initiated by a handful of the non-government organisations (NGOs) which were active then. At that time, it was difficult to imagine that these initiatives would lead to a major microcredit movement, which would make Bangladesh known to the rest of the world. Even during the 1980s, in spite of Grameen Bank's success, the main discourse amongst development practitioners in Bangladesh centered around the desirability of microcredit programme as opposed to conscientization. By 1990, unhindered experimentation in the fields led to a quite resolution of the debate and the country experienced a massive expansion of microfinance activities during the 1990s.

The rapid expansion of microcredit drew attention of policymakers, academics and development practitioners. At that time, each of them were trying to shape the course of the social and economic dynamics initiated due to introduction of microcredit. With a view to meet the demand for funds for re-lending by the development partners like NGO and other microfinance institutions (MFIs), and to coordinate the flow of such funds for appropriate use, Palli Karma Sahayak Foundation (PKSF) or 'Rural Employment Support Foundation' came into being in 1990.

Since then PKSF has lent about US\$ 200 million to 210 microfinance institutions (MFIs) covering more than 3.8 million borrowers. More than 90% of the borrowers are women. As the biggest microcredit apex funding organization in the world, PKSF's standards, guidelines and modalities are being studied by various countries in order to develop their microcredit sector.

In Bangladesh various financial institutions like nationalised commercial banks, specialised banks, government organisations and semi-formal financial institutions (more than 1200 NGO-MFIs) are working with microcredit programmes (MCP). The total coverage of MCP in Bangladesh is approximately 15 million households. However, there is a debate on the extent of overlap, one borrower is taking loan from more than one MFIs. The consensus is that one an average about 15 per cent of the total borrowers borrowed from more than one MFI.

Some people criticise microcredit programme by saying that microcredit has so far failed to reach at extreme or hardcore poor, who take less than 1800 K cal. food per day. Actually it is not possible to help those people for a number of constraints like lack of capacity and skills of these people to use loans, lack of flexibility in regular MCP and perceptions of MFIs that these people are 'high risk borrowers'. However, several MFIs are now implementing MCPs on a limited scale for these people.

PKSF has recently launched a pilot projects entitled 'Financial Services for the Poorest' which is being funded by the World Bank. In this project, financial services with flexible mechanism are being introduced. Weekly loan repayment has not been made compulsory for them. Under the project, borrowers can borrow money for a shorter period (not for the 52 weeks prescribed in normal programme). A 'disaster management fund' exists in the programme to protect the poor during unforeseen disasters, loan size varies according to the demand of a particular borrower, rate of interest and grace period on loans also vary according to the nature of the client and the geographical area where he/she resides. In total 19 NGO-MFIs are implementing this three-year project in various areas of Bangladesh on a pilot basis.

People also often talk about the rate of interest in microcredit programmes. According to them, it is very high. Here all should know that the local MFIs are charging the lowest than many other countries of the world. In Malaysia, Kenya the rate, which is actually 'service charge', is 35-40 per cent where it is 15-20 per cent in Bangladesh. Even in Africa it is as high as 84 per cent. Borrowers go to banks for depositing and withdrawing money but MFIs have to go to its clients for such works, which is costly. The MFIs have to spend more money than banks to run the institutions.

The major objective of microcredit is to create income among poor households and thereby alleviate poverty. In this respect, questions can be asked at two levels: first, whether microcredit leads to an improvement in income and second, whether the increase in income is sufficient to lift them above the poverty level. There is also a third aspect related to the second and that is whether poverty alleviation takes place on a sustained basis.

The PKSF commissioned a longitudinal Monitoring and Evaluation Study (MES) to judge its activities. Bangladesh Institute of Development Studies (BIDS) conducted the study from 1997 to 2001.

The study found that microcredit programme has twofold impacts—economic and social—on poor people. On economic side, the study reported that microcredit programme has improved people's lifestyle through increasing of their income, food security, employment and assets. While on social impacts, the study found more gender equality of the participants through enhancement of women's position in decision making on household expenditures and family planning. It also found that women's mobility has improved dramatically. According to the report, women of participating households visit health centres and NGO offices more frequently than women of non-participating households.

International Development Association (IDA) of the World Bank

also conducted a rapid impact assessment of microcredit programme in early 1999. This study also shows that the poor have benefited from the programme of PKSF in several ways. It was found that borrowers' income increased by 97.93 per cent, quality and quantity of food intake improved by 88.59 per cent, clothing reported improvement by 87.85 per cent, housing conditions improved by 75.26 per cent, children's education improved by 75.41 per cent, sanitation condition developed by 68.74 per cent and overall quality of life improved by 94.96 per cent.

However, different macro studies shown that there have not been any significant decline in the overall levels of poverty. This apparent contradiction may be partially due to the fact that the microcredit programmes have not been very successful in including the hardcore poor, who constitute about half of the poor in Bangladesh. The poorest may have been left out because quite often the destitute themselves feel they are not credit worthy and the microcredit programme also do not judge them to have the entrepreneurial ability necessary to invest the credit properly. Perhaps microcredit, specifically in the form that is currently in practice, is not the answer to the need of the hardcore poor.

Though microcredit programme is a strong instrument towards poverty reduction it is yet to be included in the government's macro policy. The orientation of macropolicy should therefore be geared toward microcredit as well.

In view of history of MFIs (most of which are NGOs), it can be argued that the conventional regulatory framework such as that of formal banks and

financial institutions is not appropriate under the circumstances prevailing in many countries. This is particularly in view of the fact that many MFIs are not accepting deposits with checking facilities. The unique features of MFIs in the field of social and financial services, with the core objective of poverty alleviation, differentiate the industry from the formal financial sector. However, that does not in any way downplay the importance of having some strategic monitoring measures that are compatible and appropriate to MFIs' objectives, institutional operation and development culture. The measures should incorporate user-friendly prudential norms or indicative guidelines in the form of a concrete 'Code of Norms/Conduct', which would ensure sound and organised growth of MFIs on the sustained basis.

A set of financial standards, reporting formats and performance standards may be an effective way to keep the MFIs on the right track. There is a broad range of experiences to draw from in establishing appropriate standards, including the work being done by PKSF in Bangladesh, an independent autonomous apex body outside the government's control may be formed to ensure that the 'Code of Conduct' and the microcredit standards are complied with by the MFIs. Non-compliance by the MFIs may ultimately result in canceling the permission/registration of defaulting MFI.

To discuss the constraints and challenges in the microcredit programme, PKSF, in collaboration with the Microcredit Summit Campaign is organising the Asia Pacific Region Microcredit Summit Meeting of Councils in Dhaka, Bangladesh from

16-19 February 2004, with visits to microfinance programs on 14 and 15 February. The forthcoming Summit Meeting in Dhaka will be organised in the backdrop of the UN International Year of Microcredit 2005. The Meeting will also help to formulate strategies to achieve the Millennium Development Goals, with the target of halving the number of poor by 2015.

As the microcredit movement matures, we get a clearer idea of its strengths and limitations. To move forward, we need to be more effective, increase outreach, and design products to include the poorest and to spread the poverty alleviation net wider, so that significant decline in poverty takes place. We also need to have transparency in the management systems of the MFIs and prepare for the eventualities of decreased donor funding to move towards sustainability.

Finally we have to remember that microcredit programme is a strong tool towards poverty alleviation and it can be made further effective if it works in tandem with other micro interventions in the form of 'programmes' in health, education and nutrition sectors and in the form of 'processes' in social mobilisation and rights-based education.

Dr Salehuddin Ahmed is Managing Director, PKSF.