

Microcredit Special

A four-day Asia-Pacific Region Microcredit Summit is going to be held in Dhaka from 16 to 19 February. We print the following article 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.

Microfinance, rural power structure and empowerment

A Look into Changing Realities in Bangladesh

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"The availability and access to finance can be a crucial influence on the economic entitlements that economic agents are practically able to secure. This applies all the way from large enterprises (in which hundreds of thousands of people may work) to tiny establishments that are run on micro-credit. A credit crunch, for example, can severely affect the economic entitlements that rely on such credit."

-Amartya Sen (1999): Development as Freedom, Alfred A. Knopf, New York

BDANGLADESH is indeed a social laboratory of microfinance. The rural power structure has also been undergoing significant changes due to the presence of hundreds of microfinance organisations. Although Grameen Bank made the initial intervention; the model has further been developed and adjusted by other NGOs. It is the reality that almost all major and minor NGOs are now deeply involved in microfinance operation in Bangladesh. Most of the loan are going to the rural areas and to the female clients (see Annex Tables 1 and 3 and Figure 1). A lot of product differentiations are also taking place in microfinance industry. There are some important socio-economic consequences of microfinance:

1. The economic improvement brought about by this intervention has definitely led to empowerment in rural Bangladesh. It is no denying that microfinance has played a significant positive role in empowering rural women during the past two decades.

2. The traditional landlord-tenant, employer-employees and debtor-creditor relations have been affected.

3. Micro credit has helped develop a number of informal enterprises (e.g., fisheries and poultry farms) leading to increase in rural wages for the non-agricultural labourers (see Annex Table 2 and Figure 2). Withdrawal of some wage labourers from crowded agricultural sector has also made positive impact in this sector in terms of tightening the labour market. The agricultural wage has, therefore, also gone up to some extent. However, the wage in the informal enterprises is much higher than the agricultural wage making positive contribution towards poverty eradication among households with such wage earners (see Osmani et al, 2003).

All these have created a synergy in the rural sector making some positive gains in poverty reduction. The economic gains made so far have been making positive impacts in terms of reducing the traditional patron-client relationships and as well as various contractual arrangements in the rural economy. The organisational efforts made by NGOs before providing micro-credit have also a positive spillover effect in developing countervailing forces in the rural areas. In the process many of the traditional power elites have been either neutralised or made helpless in the face of organised poor. However, microfinance has not yet been able to contribute much to the small and marginal farmers who are being fast depeasantised in the usual process of differentiation as they have no access to institutional credit from government or non-government forces and as well as for other socio-economic pressures.

Given this diverse scenario, the present paper tries to capture some of the changing realities in rural Bangladesh using mostly secondary information. It is also intended to throw some analytical insights into the on-going micro credit debate, particularly to make a contribution towards understanding how countervailing power created by micro-credit intervention could transform the "living, collective consciousness" of the poor so that they too can become more confident and assertive to ask for their legitimate right to development.

Improvements of poverty situation in the 1990s: role of microfinance

Bangladesh made a notable progress in reducing human and income

poverty in 1990s, the decade of democratic polity, however limited it may have been. Between 1991/92 to 2000, the percentage of people below poverty line declined from 59.8 to 49.8 per cent, at an annual rate of 1.8 per cent. There are, however, regional disparities in the progress in poverty reduction; the rate of reduction was higher in the urban areas (2.2 per cent compared to 1.6 per cent of rural areas where the majority of the population reside). Inequality in the both areas increased, but the increase in the urban areas was at a much faster pace (the yearly changes were 2.3 and 1.4 per cents in urban and rural areas respectively).¹ Rural area, however, performed better in reducing the depth and severity of poverty, which is captured by the declining trends in poverty gap and squared poverty gap indices (rates of decay were 2.8 and 3.8 per cents in rural and 2.5 and 2.7 per cents respectively) over the same period (ERD, 2002:9).

Two complementary factors are now well-recognised while explaining the relatively high level of poverty reduction in the 1990s: growth-poverty linkage and positive role played by non-government organisations (NGOs).

Growth-poverty linkage

Faster rate of poverty reduction in 1990s was associated with a faster rate of growth of the economy compared to 1980s. Osmani et al (2003) has an illuminating discussion of this growth process and its linkages with the reduction in poverty. The study takes a close look at the rural non-farm sector in recognition of the fact that most of the poor live in rural areas and explores that a particular pattern of growth in this sector has contributed towards the reduction in the poverty level during 1990s. Increased demand generated from the crop sector, workers remittances and ready-made garments accelerated growth during this decade. This led to enhanced growth in non-tradable non-farm enterprises. The end result of this has been an increase in the scale of operation of these enterprises, which brought about a change in the nature of labour absorption in this sector. An increased scope of salaried wage employment in these enterprises provided the conventional rural agricultural workers with an opportunity to shift to this sector. This transition in the rural labour force had important implication for the dynamics of poverty in Bangladesh. On the basis of Household Income and Expenditure Survey 2000 salaried employment in rural non-farm sector is much more rewarding for the poor than any other mode of employment. Therefore, a shift towards this type of employment during the 1990s must have contributed towards faster rate of poverty reduction. The study also indicated that poor are often unable to full access the opportunities opened up by the expansion of the non-farm sector. Various impediments such as lack of education, physical assets and absence of supporting social network stand in their way to get into the non-farm sector whether in the form of salaried employed or as self-employed in more profitable and relatively large enterprises. Therefore not only the growth process of the non-farm sector should be nurtured but enough care should as well be taken to enhance the capability of the poorer section of the population to realise the benefit from it.

2.2 Role of non-government organisations

NGOs in Bangladesh have been playing significant role in providing services to the poor in the areas of health, sanitation and education besides empowering local communities by promoting awareness on rights and providing training advocacy inputs. But the non-government sector is better known for its contribution in the field of microfinance. Many of the NGOs and quasi-NGOs (such as Grameen Bank) have been involved in numerous innovative micro-finance related programmes. Over 85 per cent of their borrowers are women and nearly all programmes are run in rural areas. However, most of the micro finance programmes have not been able to reach the extreme poor (Rahman and Razaque, 2000) and there is

increasing evidence that poor rural women are not as highly benefited from such programmes as their share of borrow indicates. It is alleged that poor women do not always allow utilise their loans themselves but act as representatives for their male family members (Goetz and Sen Gupta, 1996; Hashemi, Schular and Riley, 1996; and Kabber, 2001).

Microfinance, rural power structure, and women's empowerment

Rural power structure and microfinance: Grameen Bank's experience

Microfinance has successfully been able to break the age-old rural power structure. It has created sufficient social mobility of women in the rural Bangladesh during the last two decades. However, Grameen Bank is the pioneer in empowering the powerless by first providing them with the credit.

It is sometimes believed that the poor, for whom the rural development programmes are officially proclaimed to be undertaken, are not effectively integrated in the processes mainly due to the elites' fear

of mous space for themselves;

b. there has been substantial increase in the level of agricultural wages following withdrawal of some labourers from agriculture and moving into non-farm sectors - Matbars are not particularly happy about it;

c. the role of Matbars as the judges of Salish has been severely curtailed. Most of the GB members were seen to settle their disputes by discussing amongst themselves in their group meetings;

d. the Union Parishad leaders, though not effectively challenged, felt at times threatened by GB members, particularly during the election period as they are now more conscious voters;

e. economic elites have particularly no grievance against GB. This may be due to the fact that by providing credit to the poor GB is helping expansion of home market. As income of the poor goes up, it sets in multiplier effect and makes the rural economy more vibrant. Most power elites in the rural areas who are also businessmen find that GB has enhanced their trading activities by

collective enterprises.

& The borrowers have gained critical eyes. They can now see many things beyond their noses. They can comprehend local and national politics and react to any national crisis triad not usually noticed amongst the poor who did not receive credit.

Microfinance and women's empowerment

There are many studies with the finding that microcredit has been contributing significantly to empower women in the rural areas. Credit-receiving households in general (regardless of income) were found to have higher income and consumption standards than the equivalent families that do not receive credit. Of course, empowerment implies not only higher family income or consumption standard. According to World Bank (2002:v-vi) empowerment is the expansion of freedom of choice and action "empowerment is the expansion of assets and capabilities of poor people to participate in, negotiate with, influence, control, and hold accountable institutions that affect their lives". Mayoux (2000, cited in McKnelly and McCord, 2001)

or in the households where no credits had been received.

& In other study Hashemi, Schular, and Riley (1996) noted positive impact of microfinance on women's empowerment. They explored the impact of credit on a number of indicators of empowerment: (a) the reported magnitude of women's economic contribution; (b) their mobility in public domain; (c) their ability to make large and small purchases; (d) their ownership of productive assets, including house or homestead land and cash savings; (e) involvement in major decision-making, such as purchasing land, rickshaw or livestock for income earning purposes; (f) freedom from family domination, including the ability to make choices concerning how their money was used, the ability to visit their natal homes when desired and a say in decisions relating to the sale of their jewelry or land or to taking up outside work; (g) political awareness such as knowledge of key national and political figures and the law on inheritance and participation in political actions of various kinds; and (h) a composite

have been persisting; and

2. improvements in women's intra-household position

Women's relative position in the household has also been affected by microfinance programme participation. It helped change household processes causing those to be more gender equitable than before. The most visible positive impacts of participation are that it has improved women's decision-making power on household expenditures and fertility regulation; and improved their status in the family, relation with husband and self-esteem.

It is worth-mentioning here that Grameen Bank has been consistently encouraging their borrowers to make best use of the opportunities provided by globalisation. GB is an important partner of Grameen Phone, which has virtually revolutionised the communication system in rural Bangladesh. The whole of rural Bangladesh is now connected to the world. Besides taking to their family members working in different places of Bangladesh and even in other countries, some of them have opted to become 'Phone Ladies' and taking the cellular phones to others' door steps to provide services them. In the process, they are now changing their fate as well.

Telecommunication is a critical element in the infrastructural package for pro-poor growth. The relative importance of telecommunication has increased manifold following the revolution in information technology. Telecommunication would help market integration regionally, increase the effectiveness of the early-warning system for preventing disaster, and help improve the system of administrative governance. It is clear that much of the future growth in rural and urban areas would come through IT where access to telecommunication is critical. Grameen mobile phone operated by the poor women in rural areas is a case in point. Impact is already being felt everywhere. Now there are about 20 thousand Grameen cellular "Phone Lady" in the rural areas who challenged ICT-based haves and have-nots traditional disparity. The concept of such phone lady has created economic and social mobility of women in rural Bangladesh leading to empower them successfully!

- Binayak Sen
Poverty in Bargladesh - A Review; at www.bids-bd.org

4. The counter-views

Despite these successes, there are still some pessimistic findings indicating that participation in the microcredit programmes has brought about little or no empowerment of women in the rural Bangladesh.

a. Using a five-point index of marginal control over credit as the indicator of empowerment, Goetz and Sen Gupta (1996) have shown that women have no control over their credit. Women had no knowledge of how their credits were being used, nor they had provided any labour into the activities funded by the credit. On the other hand, for those who were considered to have exercised full control having participated in all the stages of the activity funded by the loan including product marketing the study found majority of them, particularly married women, exercised little or no control over their loans.

b. A study conducted by Ackerly (1995) reveals that membership of some credit organisations was more likely than others to contribute to the likelihood of women's empowerment by using their "accounting knowledge". Women who provided labour to credit-assisted enterprise, sold their own products, or kept their own accounts were also likely to be empowered. However, Ackerly concluded that women's access to the market is the primary route for their empowerment, and that knowledge and empowerment come through market access. She also warned against the likelihood of overwork, tiredness and malnutrition by using credit to promote women's labour involvement without promoting their market access.

c. Montgomery, Bhattacharya, and Hulme (1996) found that only 9 per cent of the first time female borrowers were primary managers of credit-funded activities. They also

found that access to credit did little to change the cash management relationship within the household, and contributed little to empower women. Its main effect had been to increase the social status of the credit-receiving women.

d. It was also found that men were the users of more than 60 per cent of women's loans (Rahman 1999:75).

In terms of reaching the poorest it is found that (Morduch and Haley, 2001:2-3)

& Microfinance is not for everyone; especially it is not for the poorest.

& The sick, mentally ill, destitute, etc. who form a minority of those living below the lower poverty line are typically not good candidates for microfinance

& Even a well-designed microfinance programme is unlikely to have a positive impact on the poorest unless it specifically seeks to reach them through appropriate product design and targeting.

& There is a strong tendency of the microfinance programmes to move to the top of the clientele group, and to give little attention to the needs of the poorest.

However, the empowerment of the poor beneficiaries of micro-finance has not yet been translated into their greater political strength as desired due to the fact that the process of intense spearheaded politicisation supported by two major political parties in Bangladesh has started monopolising rural political scenario.

In some instances gains made by the organised poor are being challenged by this new wave of politicisation. Despite these setbacks, the empowerment process unleashed by microfinance organisations is still quite significant and could indeed play a very important role in poverty reduction if this process were strategically linked with some other forms of social mobilisations (e.g., movement for quality primary education and health to all, stronger local government, greater access to ICT and regional, national and global market for the creative poor, greater transparency and accountability to effect right to development, etc.). Some such initiatives are already on in Bangladesh. It is hoped that initial gains made by microfinance organisations will ultimately lead to greater social mobilisation for good governance and participatory decentralisation. However, there is still a need for a special attention to be given to the extreme or hard core poor. They have either been excluded by micro credit organisers or they themselves have self-excluded to avoid the stringent rules of repayment.⁸ Definitely there is a scope for innovation at this end of microfinance as is also the case for other end where graduated microfinance beneficiaries could be linked with higher level of credit stream, preferably from organised financial sector. At this end the emerging non-farm enterprises boosting rural growth process could be further strengthened by providing them higher amount of microfinance. They are the potential sources of change that could be triggered for the microfinance industry. Indeed some of the large microfinance institutions can now have banking subsidies to cater to the needs of these more successful micro credit recipients. It is high time that micro-finance institutions are allowed to collect deposits and provide higher-level micro-finance through their banking subsidiaries within an agreed regulatory framework overseen by the central bank of the country. This regulatory framework should be flexible and yet very strong particularly with regard to factors those normally create default culture in the financial sector.

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that once the poor are incorporated into these processes, the dominance of the rich will be severely eroded.² There are some fundamental characteristics of rural power³ structure of Bangladesh (Siddiqui, 1985: 135-6):

& It strongly reflects the existing economic reality in the society, namely that those who own and control the means of production are generally also the power holders in the rural society.

& The economic monopoly enjoyed by the rural rich is used to create one-way dependency relationships with the rural poor (share-croppers, wage labourers, creditors, etc.) and this dependency is used by them as "vote bank" for translating their economic power into political and administrative power.

& There is a close collaboration between the rural elites and those who run the central government agencies at the local level owing to common class background, similar ideological orientations and existence of chain of corruptions.

& The rural power structure, in league with central government functionaries, not only appropriates the lion's share of free and subsidised central government inputs to the complete or almost complete exclusion of the rural poor, but also there is little evidence to show that the appropriated inputs are put to any significant productive use.

In other words, rural power structure is insurmountable hurdles in the path of meaningful rural development. In Bangladesh, the rural power holders are (Rahman, 2002a:42):

1. Matbars (village headmen) controlling the informal institutions like Samay⁴, Salish⁵ and owning most of the land.

2. Union Parishad⁶ leaders controlling formal administrative institutions at local level.

3. Rural political elites representing different political parties at the grassroots level.

4. Government employees at the rural levels.

5. Economic elites controlling economic organisations like cooperatives, deep tube-well management committees, shallow tube-wells, ration shops, fertiliser shops, etc.

However, the impact assessment study of Grammen Bank (GB) on rural power structure of Bangladesh reveals that

a. there have been significant changes in the social relations like landlord-tenant, employer-employees and debtor-creditor relations. Some of the GB members have withdrawn from the existing relations and created some auto-

increasing demand for goods, and the agriculture has also not been negatively affected as the prices have not dampened; and

f. the GB clients themselves revealed that they have successfully neutralised or by-passed the local power structure through unity, steadfastness and tactics (Rahman, 2002a:74-5).

However, microfinance helped change rural power structure through some of the innovative consciousness-raising among its members. For example, in addition with the credit operation, GB has many consciousness raising efforts amongst its members so as to make them live in collective consciousness (Rahman, 2002b:107-8):

& GB aims at removing illiteracy that is why it does not provide loans to someone who cannot at least sign his/her name. Therefore it provides short literacy training to the loanees. Then many of them continue to learn by their own efforts, or at least realize their virtue of education and not deprived of the same.

& The organisational efforts of GB work as eye-opener to the rural poor, who had been victim of religious exploitation, ignorance and oppression. Poor women, being the most vulnerable of all the poor, do get unfolded as human beings the fastest. They can now perceive the evil designs of the 'fundamentalists', male chauvinists and above all, the rural power elites.

& The loanees consider early marriage as a vice. Besides, GB successfully motivated its clients in building up a challenge against the dowry system.

& 'Groups' and 'centres' of the loanees are working as focal points of solidarity and cooperation amongst the loanees. The group spirit has emerged in concrete terms and GB is making relentless efforts to consolidate this spirit of cooperation. Rural poor women have been the greatest beneficiaries of the efforts. They are becoming income earners with the help of credits and are subsequently asserting their rights on their male counterparts and the society at large. They have become quite confident about their own ability and can easily stand against social injustice. This has been possible due to the development of countervailing power amongst the credit receivers.

& New leadership has been emerging amongst the borrowers. -

& The borrowers are involved not only in individual economic upliftment but are also trying to develop a higher order collaborative by pooling resources and managing some

has defined empowerment as a multidimensional and influential process of change in power relations⁷, and sketched a framework for women's empowerment in the following way:

& Power within: Enabling women to articulate their own aspirations and strategies for change.

& Power to: Enabling women to develop necessary skill and access the necessary resources to achieve their aspirations.

& Power with: Enabling women to examine and articulate their collective interests, to organize, to achieve them and to think with other women's and men's organizations for change.

& Power over: Changing the underlying inequalities in power and resources that constrain women's aspirations and their ability to achieve them.

Definitions of empowerment

Empowerment is to give someone a voice in the decision-making table. www.doc.k12.qa.us

It is the sense that people can create and take action on their own behalf to meet their physical, spiritual and psychological needs. www.socialpolicy.ca

It is the feeling of having the right to make one's own choices, and of having the ability to act on them. www.alc.ase.org

Empowerment means the devolution of power and decision-making responsibility to those lower in the organisation. www.lhfm.salford.ac.uk

However, although credits to women in rural Bangladesh were more likely to benefit female consumption standards, women credit-receivers nevertheless benefited from their direct access to credit. Women who actively used at least some of their credit had higher consumption standards and were more likely to have a role in household decision-making, either on their own or jointly with their husbands. The credit-receiving women were more likely to participate in household decision-making than women from households who did not receive any credit (Islam-Rahman, 2002). A study by Pitt and Khandker (1995) found that households receiving credit were largely better off than those not receiving loans. In addition, the findings that the gender of the credit-receiver did influence the pattern of household decision-making outcomes are interpreted as the evidence that women's preference carried greater weight in determining decision-making outcomes in households where they had received a credit compared to households where either men received the credit

of all the indicators. They found that women's access to credit was a significant determinant

& the magnitude of economic contributions reported by women;

& the likelihood of an increase in asset holdings in their own names;

& an increase in their exercise in purchasing power;

& their political and legal awareness as well as of value of the composite empowerment index.

Moreover, BRAC's credit-receivers tended to report significantly higher levels of mobility and higher levels of political participation, and Grameen members reported higher involvement in major decisionmaking. Their access to credit was translated into empowerment via their enhanced contribution to family income. The study also found that access to credit appeared to be associated with an overall reduction of the incidence of violence against women. In addition, they found that membership of a credit programme was associated with a significant reduction in violence.

A recent BIDS study reveals that participation in MFJ programmes in general, and regular participation in particular, had positive impact on women's empowerment. It has divided women's empowerment into the following two indicators and revealed the following improvements (Zohir et al, 2001)

1. improvements in women's socio-economic position

The direct effect of micro-credit programme on women's position in the community has been through the expansion of women's mobility into the public sphere. As a result of participation in micro-credit groups in micro-credit groups the restriction of purdah has become relaxed and women's mobility into male dominated public spaces like bank and thana headquarters has become much more socially accepted behaviour. This has in general benefited women and in particular by increasing women's access to public institutions like market, financial institutions, service providers, and as well as to information and knowledge. Participation also had an effect in transforming the institution of family building (indicated by rise in contraceptive use) by facilitating households to respond to the changing cost-benefit of having children. It is, however, seen that although the institutions of purdah and family formation have been transformed in women's favour, participation had little effect on women's access to rural labour market suggesting that certain socio-economic institutions governing relative positions of women and men in the rural areas