



Project Proposal

Knowledge Development and Dissemination on Micro Credit and Micro Level Capacity Development: The Case of Bangladesh.

First Phase-A

Definition

“Micro credit” is the name given to extremely small loans made to poor borrowers. A typical micro credit scheme involves the extension of an unsecured, commercial-type loan at interest to a poverty stricken borrower. The definition of poverty stricken varies with the situation, but in Bangladesh the typical definition is a borrower who owns less than 0.5 acres of land and relies on wages for all income. Loans are disbursed in a group setting to poor borrowers, with some amount of non-credit assistance also being made available. The non-credit assistance typically ranges from skills training to marketing assistance to lessons in social empowerment. (Khandar, 1998)

Background

Microfinance is now accepted worldwide as one of the potent tools of poverty alleviation. The awarding of the Nobel Prize (2006) to Dr. Muhammad Yunus and Grameen Bank has rekindled interest in this form of banking services to the extent that the UN and even the multi-lateral funding institutions are considering it as an effective tool for poverty reduction. However there has always been a group of strident critics who continue to debunk the claim of the Microfinance Institutions (MFIs) in this respect. It would therefore be worthwhile to try to analyse this form of service in an impassioned way. One can start by looking at how it works. Obviously the main instrument is micro credit or small loan, which is offered to clients at a fixed service charge to be repaid in equal installments over a fixed period of time. The loan is collateral-free.

The main critique against this form of credit is the service charge or the rate of interest charged. This usually varies from 12 percent to 16 per cent among different MFIs. The principal and the interest are calculated over the period the loan is given, which is to be repaid as a fix amount on a weekly on a monthly basis. The bone of contention lies here. Critics point out that whereas the services charge or the rate of interest is declared to be around 12 percent to 16 per cent. The effective rates come out to be around 25 percent to 30 per cent. This is true, but what one misses is these calculation is the fact that those people who are left out of the institutional banking sector because of the inability to furnish any collateral as well as hassle of paper works and the shuttling between the bank branches and their place of abode, MFIs reach this services at the door step of the beneficiaries through the field workers. Moreover the loan is to be paid on a weekly or monthly basis (in some cases of business or enterprise loan) the burden on the members is tolerable. This becomes evident when one looks the repayment rate of the MFIs, which varies between 90 per cent and 100 percent. The lesson here is that the poor who have so long been denied carried are now using this tool of augment their lot. They do so by utilizing the credit income generating activities (IGA) that also contribute to employment generation.

Growth and achievements of Microfinance

There are approximately 1,200 microfinance institutions (MFIs) in Bangladesh, most of which are non-governmental organizations. The industry is dominated by four large MFIs that serve

80 per cent of all microfinance clients in the country. The four institutes (i.e. Grameen, ASA, BRAC and Proshika) combined have approximately \$ 950 million outstanding loans and \$470 million in savings. The successful scaling up of microfinance industry in Bangladesh is the result of three factors:

1. *An enabling environment* : Favorable social conditions, macroeconomic stability, and light government regulations allowed the MFIs to expand
2. *Organizational innovations within MFIs*: These included decentralized structures, performance targets, and close supervision of staff
3. *Strategic use of subsidies*: Subsidies for capitalization of loans and capacity building were channeled directly non-governmental organizations, and also through a highly professional, autonomous government organization.

Micro-Credit in Bangladesh Serves as Model for Other Countries

Today, several aid organizations in Bangladesh make small loans to as many as 13 million poor people. The concept of micro-finance is not only helping overcome poverty; it is bringing about a fundamental social shift in one of the world's poorest countries by making women self-sufficient, and improving their position in the family. Salehuddin Ahmed heads a Bangladeshi micro-credit funding organization, the Pali Karma Sahayak Foundation. He said micro-credit is transforming the lives of women across the country. "They have now become self-sufficient; they can generate their own income; and more important, they have redeemed their self-esteem," he explained. Micro-credit banks have been established in 40 developing countries across Asia and Latin America, and small loans have been extended to 65 million people worldwide.

Micro-credit has empowered women in a number of ways:

- (1) Improved access to health and education, allied with expanded opportunities for employment and access to micro-credit, has expanded choice and empowered women.
- (2) With increased social and political consciousness, women are now more likely to take part in local government and national elections. They are gaining control over their lives, reducing their dependency and taking a greater part in family decision making processes.
- (3) While disparities still exist, women have become increasingly powerful catalysts for development, demanding greater control over fertility and birth spacing, education for their daughters, and access to services.

Drawbacks

There are a variety of problems and shortcomings associated with the micro credit and micro enterprise cluster models of poverty alleviation. One is the problem of using the loans effectively. A second problem is that micro credit loans don't reach the poorest of the poor. Instead they tend to reach the moderately poor members of society. A third problem is the danger of borrowers becoming dependent on micro credit, rather than using it as a means to escape poverty. Fourth, successes in poverty reduction may not hold up over time. Clustering brings with it a different set of problems. The inability of some clusters to progress beyond a very rudimentary stage and the related problem of the development of a parochial world view inside clusters will be looked at. The significant issue of negative externalities will also be reviewed

1st Phase – B) e-Learning to Promote Micro credit Solutions for the Poor

Lifelong learning covers both formal and informal education processes. In some cases, informality is another word to describe the impossibility for the poor to carry out the finance their project. The e- learning technology offers new perspectives for such people excluded for lifelong learning plans. In both developed and underdeveloped country, micro credit schemes developed through e-learning platforms allow small entrepreneurs at the local level to get a new

opportunity. The father of micro credit is Mohammed Yunus, based in Bangladesh, with his famous Grammen Bank, a so-called bank for the poor. Financial experts in the first world have adapted the Grameen Bank's model. This is the case of PINet finance that offers one example of the new solidarian functions that an e-learning platform can fulfil.

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PROJECT Title : Training-cum-Visit Programme in respect of Micro-Credit

Country Coverage : Bangladesh and India/ Any other CMCs

Duration : In 2009, a programmes of 14 days duration will be taken up.

No. of Participants covered : 40 per programme

Participants to be trained in 2009 : 40 Persons

Budget : US\$ 43,300/-

TRAINING-CUM-VISITS PROGRAMME IN RESPECT OF MICRO-CREDIT: Project Design Matrix (PDM)

	Summary	Verifiable Indicators	Means of Verification	Important Assumptions
Overall goal	To expose the senior rural development functionaries to micro-credit schemes	Number of trained functionaries	Improved management of micro-credit schemes	* Financial assistance to the training is available * Training imparted will be disseminated down the line
Objectives	*To train the senior rural development functionaries in micro-credit schemes *Exchange of ideas, experience and information with other Asian countries *Study some successful micro enterprises in Bangladesh and South-east Asian countries.	* Better functioning micro- credit schemes * Micro-credit being introduced as a scheme of economic development * Enhanced participation of people * Enhanced income and employment * Capacity building of rural development functionaries * Documentation and dissemination of information	Trained personnel, improved management practices	
Outputs	*Establishment of community micro-credit organisations *Trained community members on micro-credit system			

	<ul style="list-style-type: none"> *Enhanced experience of rural development functionaries *Dissemination of information to lower functionaries *Better co-ordination at grassroots level *Documents and reports on working of the scheme and success stories 			
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Inputs	Activity	Physical Inputs		
	<ul style="list-style-type: none"> *Preparation of training module by CIRDAP *Selection of participants by Govt. of India *Organise training at CIRDAP *Field visits to successful working micro-credit units *Visit to website and e-Learn for knowing the experiences from other Asian countries for exposure, exchange of information and regional co-operation 	<ul style="list-style-type: none"> *Training modules *Budget US\$ 64,100 		

CIRDAP