



PROJECT PROPOSAL

Project Title	: Success Stories of Micro Credit Operation in Poverty Alleviation: Workshop-cum-Visit Programme in Bangladesh
Country Coverage	: Bangladesh & Other CMCs
Duration	: 5 days
No. of Participants covered	: 30 (includes all CMC participants)
Budget	: US\$ 40,000/-
Venue	: Workshop at CIRDAP Auditorium and Field visit to BRAC Micro Credit Operation, Bangladesh
Funding Agency	: To be identified

Introduction

Definition of Micro Credit: “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)

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. Some MFIs stresses group liability while others give this loan on individual basis but who should however be a member of a small group. The criteria for membership is simple, a cap on the amount of asset they own makes them equal in each other’s eyes. However the products or instruments the MFIs now offer has expanded to include small business/enterprise loans, hardcore poor loans, supplementary loan to the members within the same family. Importance is given to the savings, and in addition to the mandatory savings, members are offered a variety savings products that they can avail on voluntary basis. Some MFIs have instituted insurance schemes at very low premiums to protect the borrowers in the event of sudden death where the outstanding amount including interest is written off. Members are also entitled to taking recourse to a security fund where they can contribute a fixed amount, say, tk.10 per week where on maturity after eight or ten years they or their nominee in the event of their death are entitled to six times the principal amount. male members get three to four times after four years.

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 in 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.

Issue to be discussed through Key note Papers:

a) Growth and achievements through Micro Credit Operation:

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.

The micro-finance industry in Bangladesh has grown extraordinarily over the last two decades. Following the post-independence focus on relief, rehabilitation and community development during the 1970s, NGOs adopted a target group, or community-based approach in their work. This was well suited to micro-credit and small-scale micro-finance initiatives that continued into the 1980s. From the early 1990s, the country experienced a massive expansion of micro-finance activities. Membership of credit groups increased dramatically, and the demand for these services reflected the relevance of micro-finance to the needs of the country's large population of poor people, mostly women. By the mid 1990s, micro-finance activities were being conducted by a rapidly growing number of NGOs that offered a range of financial products catering to the diverse needs of its customers

b) The Benefits of Micro Finance : The main benefits of micro credit claimed by proponents are:

1. a reduction in vulnerability to adverse circumstances on the part of the poor,
2. an increase in consumption in the same group, and
3. a reduction in income-poverty. The supporters of micro enterprise clusters further claim that clustering increases the chances of success and prosperity for poor loan recipients.

c) Replication and Micro-Credit in Bangladesh Serves as Model for Other Countries:

When Muhammad Yunus, the economist who founded the influential Grameen Bank (which dispenses small loans to poor people in Bangladesh), won the 2006 Nobel Peace Prize for his pioneering work in aiding the poor in his home country, many around the world hoped micro

credit would become the next big tool to fight global poverty. Micro credit is the process by which a "bank" dispenses small loans to poor people who do not have the financial resources to secure a loan under normal circumstances. The practice has become so popular that there are many observers who believe that, if institutions like the Grameen Bank are replicated on a large scale, it will be possible to eliminate poverty around the world.

Hundreds of economists, aid workers and government officials met in Bangladesh February 16-19, 2004, to discuss ways small loans can be extended to the world's poorest people to help fight poverty. The micro-credit system has transformed the lives of millions of families in Bangladesh, the country that pioneered the concept of small loans.

It was in the teeming slums of Bangladesh and the wrenching poverty of its villages that an economist realized how very small loans could transform the lives of people.

Mohammad Yunus, the pioneer of micro-credit, says in the villages next to the university where he taught, he saw that most poor people could never earn money "because they never had the first dollar."

"If you have a dollar you can catch a dollar," he explained. "Unfortunately, more than half the population in the world have no access to financial institutions, so they never have the starting point; they never have the first dollar."

So, nearly three decades ago, Mr. Yunus set out to do what no conventional bank had ever done - extend tiny loans of up to \$100, without collateral, to be repaid in small weekly installments.

The loans went to poor people for income-generating activities, such as buying a cow and selling its milk, setting up a tiny village shop, or running a public telephone in a remote village.

Mr. Yunus did not wait for people to come to the bank. His organization, the Grameen Bank, reached out to village homes to extend the loans. Over the years, the experiment has become a success, helping millions of people improve their lives.

Grameen Bank has lent nearly \$250 million to more than three million borrowers. Ninety-nine percent of the loans are repaid on time. Most of the borrowers are women because, Mr. Yunus says, women have the most success in starting their own businesses, and are more efficient in managing resources.

"Then we started noticing that money that went to the women brought so much more benefit to the family," he noted. "Children are better fed; houses are improved; they worked for a longer vision to change their lives and concentrate on overcoming poverty."

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.

The micro-credit system in Bangladesh is considered a model for other countries. 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.

International institutions, such as the World Bank, support the effort, saying it can significantly help end poverty.

International efforts are under way to broaden the reach of small loans to at least 100 million of the world's poorest people by 2005, which the United Nations has declared the "International Year of Micro-credit."

To achieve this, economists at a recent conference in Bangladesh called on countries to establish separate micro-credit institutions, run by private organizations. They are calling on governments to establish legal frameworks and independent regulatory bodies to supervise such banks.

d) Impact/ Poverty Alleviation through Micro Credit

It is generally difficult for the poor to get access to credit by conventional means because banks generally require the security of collateral loans. Micro-finance and micro-insurance schemes are innovative ways of providing the poor with access to capital and thus a way out of poverty. Especially women often lack access to the financial resources necessary to escape poverty and social dependency. Micro-credit schemes can enable women to engage in economic activities and join social networks through which both poverty and social dependency can be overcome.

Lessons from Bangladesh policies:

From Policy Poverty reduction through micro-credit schemes:

- Micro-credit is amongst the strongest, if not the strongest development strategies that work in Bangladesh.
- Targeted micro-credit schemes have proved to be an exceptionally effective tool for poverty alleviation for the urban and rural poor as well as women.
- Micro-credit schemes targeted at progressive and experienced borrowers allow for continued growth of successful micro-businesses and create wage employment.
- Mini-hatcheries have proven to be a particularly fruitful target for investment means made available by micro-credit schemes and have proven to be particularly successful in enabling women to overcome poverty.
- Micro-credit is particularly conducive to empowering women in urban areas.
- Micro-credit institutions can provide vital services beyond credit, such as information, community formation and fostering, mutual support networks, counseling etc.
- Creditors in rural areas, especially women, have greatly benefited from these additional, non-financial services provided by micro-finance institutions, especially the Grameen Bank.
- Governments can coordinate, control, support and enhance micro-credit institutions founded by private and civil society actors.
- Governments themselves can become actively involved in micro-finance.

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.

CIRDAP Expertise

CIRDAP is a regional, intergovernmental and autonomous institution aiming at alleviation of rural poverty in the region, the Centre has been implementing programmes and projects to assist national action and promote regional cooperation with focus on South-South Cooperation in its 14 member countries, namely: Afghanistan, Bangladesh, India, Indonesia, Lao PDR, Malaysia, Myanmar, Nepal, Pakistan, Philippines, Sri Lanka, Thailand, Vietnam and Iran.

The objectives of CIRDAP are: (a) to assist national action and promote regional co-operation relating to integrated rural development (IRD) and (b) to act as a servicing institution for its member countries with respect to IRD by providing them with technical support, by fostering exchange of ideas and experience, and by encouraging such collaborative activities as may benefit those states individually or collectively. Through its research, action research, pilot project, training and information dissemination activities, CIRDAP, in its efforts to assist the countries of the Region, has been pursuing activities that can create mechanisms for integration of human and institutional dimensions in rural development. In the countries of the Asia-Pacific

region, programmes aiming at increasing the access of the rural poor to microcredit have witnessed varying degrees of success. Valuable lessons can be learnt from the experiences in the countries in respect to specific issues relating to sustainability and adoption of micro credit models for target beneficiaries. Exchange of information at both regional and national levels can provide useful information in designing microcredit programmes that incorporate specific design requirements, participation and targeting mechanisms to address the needs and demands of the rural population within a flexible approach. Such efforts can also help in identifying the limitations in current approach constraining sustainability of the microcredit programmes and draw lessons to suggest improved approaches to the design and implementation of microcredit programmes in countries of the region. With increasing acceptance of the micro-credit model as a tool for poverty alleviation in many countries, it would be mutually beneficial for the countries in the Region to identify innovative approaches and promote micro-credit to combat social issues (e.g. poverty). It is against this background that CIRDAP proposes to organise Workshop-cum-Visit Programmes on Micro-Credit on regional basis so that experiences and problems can be shared, examined and analysed and appropriate follow-up actions developed both at regional and country levels.

Objectives

The objectives of the training are to:

- Π expose the senior level functionaries of rural development to operational and effective models of micro-credit interventions under a wide spectrum of socioeconomic, cultural and geographical situations and policy environments in the countries of the Asia-Pacific region.
- Π exchange of ideas, experience, information and regional co-operation with other Asian countries
- Π systematically identify the sources of success or failures of certain selected micro-credit programmes;
- Π examine the performance, coverage and impact of the selected programmes using methodology developed and indicators identified for the purpose;
- Π provide comprehensive analysis of the short-term effects and long-term development concerns related to sustainability of both the lending institutions and the borrowers of microcredit programmes.
- Π Visit and study some successful micro-credit enterprises in Bangladesh.

Methodology and Workshop Content :

CIRDAP would submit activity report at the end of each country training-cum-visit programme. CIRDAP would also submit an evaluation report at the end of training programme. It would also arrange to have feedback mechanism from the participants in place. However, funding agency/ CIRDAP reserves the right to appoint an independent consultant to evaluate the impact and/or effectiveness of the training-cum-visit programme.

The areas proposed to be covered will include the following:

- Π Sustainability of Microcredit Programmes/Institutions as both Financial Intermediaries and Programmes to Alleviate Poverty
 - understand what the microcredit programmes are, what they do, whom they serve, how and at what cost, and are these sustainable;
 - integrate household level impacts with relevant macro-level effects;

- identify innovative policy interventions introduced under the programmes to combat market imperfections;
- analyze the mechanisms to integrate the survival concerns of the borrowers into the credit delivery design of the programmes to ensure viability through addressing production risks in the rural areas;

II Programme Designs to Overcome the Problems of Market Imperfections and to Ensure Viability of the Borrowers and the Lenders

- examine effectiveness of group responsibility as an alternative to the conventional requirement of physical collateral where group performance determines continued access to credit;

II Saving Mobilization as an Integral Part of Microcredit Operations

- analyze the role of social development inputs in improving individual and social accountability;
- identify the impact of deliberate targeting of credit and social services more toward women rather than men;

II Integrated Provision of Credit and Social Development Inputs

- identify the role of grants and subsidized funds for institutional development and programme expansion;
- analyze the evolution of portfolio mix and provision of social development inputs;

II Sustainability of Microcredit Programmes

- ascertain institutional viability, financial viability and viability of programme participants;

II Institutional Dimensions

- evaluate leadership quality, system of administration, incentive structure of the programme staff;
- ascertain the implications for institutional viability of agro climatic characteristics of programme locations determining the nature and extent of production risk;

II Financial Viability of Microcredit Operations

- calculate break-even interest rates for the national and regional/area levels;
- ascertain financial and economic subsidy implicit in microcredit operations;
- estimate appropriate cost functions to identify the economies of scale and identify optimal levels of loan disbursement and membership;

II Viability of Microcredit Borrowers

- identify and evaluate relevant indicators e.g. member drop out rate, borrower repayment rate, impact on borrowers' income, receipt of the benefits;
- ascertain impact on related macro indicators at appropriate levels (e.g. rural wages);

II Policy Directions and Replication Potential

- identify the required policy framework;
- explore the possibility of replication of specific elements (e.g. group-based lending, social intermediation) and identify pre-requisites for successful implementation of group-based microcredit delivery model;
- identify elements that should be customized according to the perceived constraints of specific agro climate, culture and other socioeconomic environments.

Expected Outputs:

1. replication design of operational and effective microcredit models under a wide variety of socio-cultural and physical situations;
2. increased national awareness and commitment to microcredit in dealing with problems of poverty;
3. improved understanding of the problems and opportunities in the sustainability of the microcredit and microenterprise programmes and better policy and programme designs;
4. identification of opportunities for diversifying economic activities and income generation;
5. increased, gender-balanced microcredit and microenterprise programmes;
6. development of appropriate database for microcredit planning approaches and methodologies;
7. improved local and national/regional institutional capacities for the management of microcredit delivery mechanisms;

CIRDAP