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ACCOMPLISHMENT TOUCHING POVERTY: A SIGNIFICANT SYNOPSIS OF MICROFINANCE IN BANGLADESH

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POVERTY IN BANGLADESH

Poverty is an economic phenomenon in Bangladesh in which one is unable to enjoy a minimum standard of living. It is a state of existing in amounts (of earnings or money) that are too small to buy the basic necessities of life. The visible effects of poverty are malnutrition, ill health, poor housing conditions, and illiteracy. The impoverished people suffer from unemployment, underemployment and lack of entrée to resources that restrict their opportunities to earn a living. The causes of poverty are rooted in the complex web of cultural arbitrariness and demographic, economic, social, political and various other natural factors such as perennial floods, cyclones and droughts.

According to the BBS estimates, people living under the poverty line in rural areas in 1995-96 accounted for 47.1% and rural people in extreme poverty i.e., those living under hardcore poverty line comprised 24.6%. The corresponding figures for urban areas were 49.7% and 27.3% in that year. BBS in 1995 used a 'Cost of Basic Needs' method to measure the incidence of poverty in Bangladesh and identified two layers - the poor and the absolutely poor. According to this method, 35.6% of the country's population was absolutely poor and the poor accounted for 53.1%. A multi-dimensional approach to poverty takes into account a range of quality of life variables such as nutrition, health and sanitation, security, housing, entrée to safe drinking water, education, life expectancy, entrée to resources, participation and institutional capacity to cope with crisis. However, while tracking the improvements in the poverty situation of Bangladesh, we get it right that in 2000, percentage of population under the poverty line was 49.8[1], and it was 45% in 2004 (est.)[2]. Anyway, continued poverty in Bangladesh may be attributed to many factors including population pressure, limited per capita natural resource endowment, illiteracy, extremely small amount of per capita arable and forest land, poor health and sanitation services, environmental degradation, deforestation, excessive dependence on agriculture, natural calamities, large-scale deprivation of the women folk, and ill governance.

In the early 2000s, millions of people faced the dehumanising effects of acute material scarcity because of inconsistent distribution and under-utilization of land, lack of command of the poor over land and non-land resources, technological backwardness, disparity in income distribution and political unrest. With a per capita GDP at current prices, in Taka 26,898 (2004-2005)[3], Bangladesh remains one of the poorest, most densely populated, and least developed nations especially characterized by pervasive poverty in both rural and urban areas. Nearly half of the country's population lives below the poverty line.

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[1] Reported in http://devdata.worldbank.org/external/CPProfile.asp?PTYPE=CP&CCODE=BGD Source: *World Development Indicators database*, August 2005

[2] Reported in http://www.indexmundi.com/bangladesh/population_below_poverty_line.html Source: CIA World Factbook (as of January 1, 2005)

[3] Source: Bangladesh Bureau of Statistics (Provisional) as reported in the Bangladesh Bank website visited on December 27, 2005

Majority of its people lives in rural areas where problems of inequality and unemployment are growing rapidly.

BANGLADESH GOVERNMENT INITIATIVES TO REDUCE INCIDENCES OF POVERTY

As the economy of the country is predominantly rural, the Government of Bangladesh had been undertaking and implementing rural development and poverty alleviation activities since long. These activities include different sectoral and program components such as rural cooperatives, credit, irrigation, livestock and fisheries development, rural industries, area development, infrastructural development, input distribution and training. Rural development programmes was given importance in all five-year plans in varying degrees to promote overall development of the rural poor.

Bangladesh Rural Development Board (BRDB) as the major government agency undertook a series of rural development programs with the objective of reducing poverty through village-based cooperatives, human resources development, expanded irrigation schemes, improvement of physical infrastructure, increase in agricultural production, and creation of employment opportunities for the rural poor. Some of the poverty alleviation programs implemented in the government are establishment of cluster villages (1988-93), institutionalisation of VGD (Vulnerable Group Development) project (1990-92), implementation of Upazila /Thana Resource Development & Employment Project (URDEP/TRDEP), skill development training and assistance for self employment.

Government agencies such as the Ministry of Health and Family Welfare, BSCIC, Department of Social Services (DSS), Directorate of Women Affairs (DoWA), Local Government Engineering Department (LGED), Directorate of Agriculture (DoA), Directorate of Livestock, and Department of Fisheries (DoF) also have a large number of different poverty alleviation projects. There had been other government-initiated programs too, like Swanirvar Bangladesh and Small Farmers Credit Project and donor funded special projects like Rural Finance Experimental Project, Bangladesh Swiss Agricultural Project and NORAD projects for Small Entrepreneurship Development.

Also there are some traditional but less focused programs of poverty alleviation in the country. These are Food For Work (FFW) program, Food For Education (FFE), Pension for Elderly People (PEP), Vulnerable Group Development (VGD), Housing for the Poor and Homeless and the program of providing insecticides and high yield variety of seeds to rural farmers. The government has undertaken development initiatives to expand the area of non-agricultural activities in order to create more employment opportunities. All these have to some extent increased the entitlement of the poor, their social and economic awareness and empowerment. These programs, however, had contributed little to improve the poverty situation in the country. Poverty alleviation, therefore, remains a challenge requiring a proper planning to combat it and a high level of commitment to implement the plans with skill and integrity.

NGO INITIATIVES

NGOs in Bangladesh run a remarkable number of target-oriented programs and projects to improve the socio-economic conditions of small and marginal farmers, assetless poor and distressed women. Notable among these programs are the group-based microfinance and/or non-microfinance programs of Grameen Bank, BRAC, ASA, Proshika and other local and foreign NGOs. Grameen is the world leader of poverty alleviation through microlending, and the poor borrowers of the bank who are mostly women own it. It works exclusively for them. Borrowers of Grameen Bank at present own 94 per cent of the total equity of the bank. The government owns remaining 6 percent. Notable amongst Bangladeshi NGOs is BRAC, initiated by Fazle Hasan Abed to help the country overcome the devastation and trauma of the Liberation War and focused on resettling refugees returning from India. Today, BRAC has emerged as an independent, virtually self-financed paradigm in sustainable human development. It is one of the largest Southern development organizations employing 97,192 people, with 61% women, and working with the twin objectives of poverty alleviation and empowerment of the poor. Proshika, another giant NGO established in 1976, is now works in 23,475 villages, 2,101 slums, 1,82 unions (rural), 328 wards (urban), 271 upazilas, and 57 districts in Bangladesh to alleviate poverty. ASA, now the biggest MFI in the world with microlending is their only program, has shown that people's need can be met while at the same time making the providing institution profitable as well. ASA has raced to the forefront of poverty alleviation activity in Bangladesh with a potent combination of low cost operations and high growth.

POVERTY FINANCING IN BANGLADESH

Informal financing has a place in poverty financing in Bangladesh that derives from a number of factors, including their continued dominance in the rural credit market, and the services they provide to the poorest sections of the rural community. Informal lending appears to have some advantages over institutional lending, especially among low-income groups and in the remote rural areas. Major sources of informal credit are moneylenders, known locally as *mahajans* lend money at interest. Although moneylenders were called usurers, their active role helped the economy to flourish and established the pathway so that the institutional credit system could start. Even today, not only in Bangladesh but the moneylenders operate in most countries, especially in developing and less developed ones, where institutional credit is still beyond the reach of large sections of people. Till today, the rural credit delivery system in Bangladesh is dominated by traditional or informal moneylenders who account for about two-thirds of credit delivered in rural areas[4]. However, increased participation of NGOs/MFIs in the rural credit market substantially increased the volume of institutional credit in the rural areas of Bangladesh. At present, over one thousand local and foreign NGOs/MFIs are providing credit to rural people. Despite the fact that the institutional credit had expanded remarkably in the country since the mid-1980s, informal credit continues to remain important in the rural areas. Informal credit is easily available, and is therefore, more capable of meeting the urgent needs of rural farmers and the people of other professions. Informal private credit is however, exploitative in nature and is often used for unproductive purposes.

The dominance of informal credit suppliers continued until institutional sources like loan offices and banks started to evolve in the country. These institutional sources, however, could not eliminate the informal ones since the demand for finance always exceeded its supply by institutional sources. More importantly, most poor borrowers, both from rural and urban areas, do not have easy entrée to formal credit sources. Before the independence of Bangladesh, all but one commercial bank in Pakistan were privately owned. The common people especially, low-income groups were hardly allowed to receive bank loans. Indeed, Some 22 families controlled all businesses including banking in the country. Apprehending major popular discontent, the government initiated a few microcredit programs in the late 1960s. Prominent among them were the *Faria-Bepari* Jute Financing Scheme and the Small Loan Scheme. Under the first scheme, retailers in jute trading, *farias* as well as *beparis*, were financed by scheduled banks and maximum loan limit for *farias* was Rs 1000 and for *beparis*, Rs 2000. These loans were collateral free, but trading licenses were to be deposited with banks as security. Under the second scheme, the State Bank of Pakistan advised scheduled banks to develop their own small loan schemes to cater to the needs of small economic activities. Some of the new schemes were the 'Peoples Credit' of the National Bank of Pakistan (loan ceiling Rs 2000), 'Shopkeepers Loan Scheme' of Habib Bank Ltd. (ceiling Rs 1000), and 'Small Loan Scheme' of United Bank Ltd. (ceiling Rs 1000). These programs failed because dishonest bank officials extended lending to big traders under fake names and against the licenses of *farias*, *beparis* and small traders. Dishonesty of dealers and the absence of regulatory law thus accelerated the failure of these early microfinance ventures.

Following independence of Bangladesh, the government nationalized all inherited scheduled banks and with a view to introducing people-oriented mass banking, opened bank branches in rural areas to offer savings and micro lending services for the village poor. The government established Bangladesh Krishi Bank (BKB) and later, Rajshahi Krishi Unnayan Bank (RAKUB) to supply small size agricultural credit. The nationalized commercial banks (NCBs), BKB and RAKUB had institutional obesity and the rigidity in their rules and regulations made their micro lending operations rather unpopular.

During the Bangladesh War of Liberation 1971, many spontaneously formed volunteer groups helped freedom fighters as well as refugees through providing food, clothes and moral support. Some of these groups continued their rehabilitation and humanitarian activities in the

[4] Rahman, S M Mahfuzur, Banglapedia, April 2004: Asiatic Society of Bangladesh, Dhaka

country after the war was over and soon turned into organizations for social welfare and development. They became known as NGOs and gradually expanded their areas of activities to create social awareness, expand literacy, increase health consciousness, and generate self-employment and income through microfinance schemes for the poor. Grameen Bank started its operations as a small project in 1976 in Jobra village of Hathazari Thana under Chittagong district. It was gradually transformed into a microfinance pilot project with the financial support of Bangladesh Bank (BB) and was converted into a full-fledged specialized bank in microfinance in1983 under the Grameen Bank Act 1983.

MICROFINANCE IN BANGLADESH

Microfinance the term now broadly used to mean very small-sized supervised loans, without any collateral, those who maintain a savings balance with the lending institution. Amounts of microcredit in Bangladesh vary from Tk 500 to Tk 10,000[5] per client and are provided mainly by microfinance institutions / programs and also banks and conventional financial institutions to poor people without having any asset[6] or with less than half an acre of land to undertake employment and income generating activities. Microfinance institutions (MFIs) develop various tools to provide the poor with entrée to financial services so that they can increase their income and productivity. Microcredit programs aimed at poverty alleviation cover a large number of borrowers with the objective of substantially removing socio-economic imbalances, especially in rural areas.

As of December 2003, 720[7] NGOs/MFIs (whose been the respondents of the CDF Microfinance Statistics Vol. 16, December 2003) four nationalized commercial banks, two private banks and specialized financial institutions such as Bangladesh Krishi Bank (BKB), Rajshahi Krishi Unnayan Bank (RAKUB), Ansar-VDP Unnayan Bank operate microcredit programs in Bangladesh. The success of the group-based financing scheme of Grameen Bank in Bangladesh, and a host of other NGOs/MFIs operating on the Grameen model (or with other models) has been greatly appreciated worldwide and replicated in more than 45 countries, including the United States. Later, many government agencies of Bangladesh, viz., the Department of Youth Development (DYD) of the Ministry of Youth and Sports, Bangladesh Academy for Rural Development (BARD), Bangladesh Rural Development Board (BRDB), Palli Daridra Bimochan Foundation (PDBF), Women Entrepreneurship Development Program of Bangladesh Small and Cottage Industries Corporation (BSCIC) etc adopted microfinance projects/programs to provide small loans to groups to alleviate poverty through employment and income generation. Now, many government ministries and/or divisions directly operate separate MF programs that also cover a large section of both rural and urban poor.

MICROFINANCE SITUATION IN BANGLADESH

Since inception to August 2005, Grameen Bank's cumulative disbursement of microcredit stood at Tk 242.24 billion. The number of its active members is 5.04 million[8]. Even larger is BRAC (in terms of member coverage), also considered as the largest NGO in the world that also follows Grameen's group-based approach (though differs in group size) with 5.06 million active members, and with cumulative loan disbursement Tk 133.21 billion[9]. Another giant microlender in Bangladesh, ASA, claimed to be the largest (in terms of client coverage) MFI not in Bangladesh but in the entire globe that has achieved 82 percent growth during first half of 2005 has, unto June 2005, Tk 128.8 billion cumulative disbursement, to 5.47 million active members. Proshika, another giant, however has performed low-key for some years convincibly because of political pressure from the sitting government with Tk 27,165.8 million cumulative disbursements, 2.781 million active members[10]. Apart from the GB, and lead three MF institutions in Bangladesh, 717 NGOs/MFIs' cumulative disbursement, unto December 2003,

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[5] Some NGOs/MFIs starts lending Tk 500 to the ultra-poor even, and the amount is as much as high as Tk 300,000 to micro enterprising clients, nowadays.

[6] E.g., the HCP clients of FSP (PKSF), TUP-CFPR of BRAC, 'Struggling Members' of Grameen, or clients of partners (DSK, CTS and POPI) of Plan Bangladesh's microcredit program for extreme poor etc

[7] The actual number of microfinancing NGOs/MFIs in Bangladesh is much larger

[8] As per the Grameen website visited on October 27, 2005

[9] As reported by BRAC at: http://www.brac.net/ataglance_files/At_A_Glance_September_05.pdf

[10] Presented data in Proshika website were found backdated when visited on December 27, 2005. So, data used here refers to: Microfinance Statistics, Vol. 16, December 2003, Credit and Development Forum, Bangladesh.

was Tk 26,621,314.53 million to 4.148 million active members. While state owned/controlled banks' cumulative disbursement was Tk 94,537.4 million, private commercial banks disbursed Tk 4,814.9 million. In the public sector, the Bangladesh Rural Development Board (BRDB), the lead government agency that disbursed microcredit Tk 29,425.7 million (cumulative) to about 3.886 million members unto December 2003. Some administrative ministries/divisions of the GoB also disburse microcredit directly to the poor. Notable amongst them are Banking Wing of the Ministry of Finance (disbursed Tk 1,359.9 million), Ministry of Women and Children's Affairs (Tk 2,353.1 million), Ministry of Social Welfare (Tk 5,503.5 million), Ministry of Fisheries and Livestock (Tk 1,567.8 million), Ministry of Industries (Tk 1,968.2 million), Ministry of Agriculture (Tk 4,641.3 million), Ministry of Youth and Sports (Tk 5331.7) etc[11].

The acts under which NGOs/MFIs operating with microfinance programs are either registered with the Societies Registration Act 1860, Companies Act 1994, Co-operative Societies Act 1984, Charitable and Religious Trust Act 1920, and Trust Act 1882. NGOs/MFIs willing to receive donations from different foreign sources have to be registered with the NGO Affairs Bureau of the GoB under the Foreign Donations (Voluntary Activities) Regulation Ordinance 1978. However, the government is trying to bring the microfinancing NGOs/MFIs under Bangladesh Bank's regulation, and for that purpose, the BB has created a separate regulatory unit called MRRU which formulated a draft regulatory framework for MF NGOs/MFIs already[12].

Sources of funds of the Grameen Bank are share capital, general and other reserves, various special funds maintained and managed by the bank itself, deposits and balance of other funds, borrowing from banks and other foreign institutions etc. The list of funding institutions/ organizations that funded and/or funding GB since its inception includes Bangladesh Bank, IFAD, NORAD, SIDA, Ford Foundation, Dutch Grant Loan, Vic Spain and OECF. Grameen Bank also raises funds by issuing bonds and debentures under guarantee of the government of Bangladesh and the rate of interest for these varies between 4% and 10%. Rockefeller Foundation, MacArther Foundation, World Bank, USAID, UNOPS, Citigroup, UNHCR, and GTZ etc fund Grameen replication (by Grameen Trust) at home and abroad. NGOs/MFIs in Bangladesh, on the other hand, generate funds mainly from their members' savings (28.5%) and service charge earned (23.8%), and from Palli Karma Sahayak Foundation – popularly known as PKSF, a GoB controlled discounted microcredit whole selling 'Apex' organization (20.8%), international donor agencies (12.7%), banks 8.3%), own fund (3.7%), international NGOs (0.6%), local NGOs (0.4%) and from other sources (1.2%). Both revenue finances government runs programs and development budget, borrowing money from banks including using foreign aid/grants. NCBs use depositors' money, refinancing or demand loan from Bangladesh Bank, call loan from money market or donors' participation in the credit line to run their microfinance programs. Private banks run their MF programs using paid up capital, shereholders' equity, deposits and donors' fund (such as ILO, UNICEF etc).

NGOs/MFIs in Bangladesh have been, however, observed to have transaction costs. Identification and selection of target borrowers and the activity of maintaining a high loan recovery rate are costly as well. Group lending, for example, involves social intermediation, including group formation, training, and other noncredit activities. These activities are necessary to create a sense of responsibility in individual borrowers of microloans. Because of such high transaction costs, many microfinance programs are dependent on subsidized resources. However, some MFIs in Bangladesh following 'sustainability path', and have achieved notable percentage in OSS or FSS. At the end of 2004 ASA's Operational Self Sufficiency (OSS) is 245%, 20.46 percent lower than that of for the year 2003 that ASA achieved, and Financial Self-sufficiency (FSS) 159%, again lower than 16.07 than that of 2003. BURO-Tangail's Operating self-sufficiency (OSS) is 164% (Dec 2004), and financial self-sufficiency (FSS) is 135% (Dec 2004). Interest rate charged by Grameen or NGOs/MFIs on their lending are generally at or above market levels, both in terms of 'flat method' or 'declining method'. Wholesalers of microfinance funds to the NGOs/MFIs, such as, PKSF charge 4.5-7%

[11] Microfinance Statistics, Vol. 16, December 2003, Credit and Development Forum, Bangladesh.
[12] Presentation by Ms. Lila Rashid, Joint Director, MRRU, Bangladesh Bank during a UNDP Ghana team's visit to Bangladesh in August 2005 arranged by INAFI Bangladesh at Hotel Rosewood, Gulshan, Dhaka.

(except for the HCP program where the rate of interest of the fund is only 1%) while Grameen Trust charge 4-5% (within Bangladesh as well as abroad) both on declining method.

DIRECT MICROFINANCE BY BANKS

As the main source of short-term agricultural finance in Bangladesh, BKB, along with its associate bank, RAKUB, claims to be the largest source of microfinance in Bangladesh in the formal banking sector. Unto the end of December 2003 (as reported by CDF) Agrani Bank (NCB) disbursed microloans of Tk 16,788.7 million, Ansar VDP Unnayan Bank TK 2835.731 million (owned by Ansars and VDP, a militia under the Ministry of Home, GoB) and, BKB (NCB) Tk 9,465.2 million, Islami Bank Bangladesh Ltd. (private) Tk 2,923.59 million, Janata Bank (NCB) Tk 32,000 million, RAKUB (NCB) Tk 1,682.879 million, Rupali Bank Ltd. (private) Tk 51.32 million, Sonali Bank (NCB) Tk 42,053 million, and Social Investment Bank Ltd (private) Tk 232.741 million. What it appears, during the period these banks between them disbursed total loans worth Tk 108,033.431 million in microcredit to the borrowers. These microcredit was disbursed for crop loans as well as for other purposes, to say, poverty alleviation loans. Both crop and poverty alleviation loans are apparently given to landless peasants, workers, artisans, distressed women, and 'destitute'. These disbursements for this purpose may be compared with the Tk 269,47231 disbursed by the leading MFIs in the country for the same period and another Tk 191,440.4 million by Grameen Bank alone. However, the microfinance commitment of the banks (NCBs as well as private banks) consists very largely of conventional banking and, in the Bangladesh situation, results in low repayment rates, especially in the case of NCBs[13]. A difficulty encountered in attempting to understand the extent of involvement by commercial banks in microfinance is that, with the current emphasis on the subject, the banks themselves are anxious to reclassify much of their small loan portfolios as 'microfinance'. They do have much short-term crop or trade financing in amounts below or at per Tk 30, 000, some of which might on the face of it qualify as microfinance though many banks claims that their loan ceiling for microcredit program is up to Tk 100,000 (Janata Bank) to Tk 1,500 - 150,000 (RAKUB). There are, however, no reliable data on what proportion of such credit is entréeed by the poor. There are some instances of microfinancing by Bangladeshi commercial banks but they occur in an institutional environment that makes their longer-term viability difficult.

Exceptional is the program of direct microfinance by Islami Bank that has a microcredit wing undertaking a rural development scheme for poverty alleviation. Islami also uses the basic Grameen model but, as its name implies, uses Islamic banking concepts that require it to invest through methods such as leasing and hire purchase rather than cash lending. Repayments are in weekly installments, in terms of cost plus mark-up, and the period of the credit is one to three years. This is, however, still relatively a small program with just 130,455 clients and outstanding of only Tk 570.88 million in December 2003. The bank has, however, two types of lending program: Bai-muajjal that has a loan ceiling up to Tk 50,000 with 9 percent flat interest rate; and Quard-e-Hasana (loan ceiling Tk 3,500 with no interest). Apart from Islami Bank, most of the banks (both NCBs and private banks) charge flexible interest rates on loans by both flat and declining method that is ranging from 8 percent to 17 percent, and the mean rate is 11.8 (declining), and 11.25 (flat).

CURRENT DISCOURSE OF MICROFINANCE

Bangladeshi microfinancing NGOs/MFIs are performing well, and is particularly attention grabbing worldwide because of its challenging and pioneering MFIs. Quite a lot of them have been in service long enough, and many impacts are more or less positive. Microfinance in Bangladesh ensured greater outreach to the economically disenfranchised and have a lasting impact in the reduction of poverty and the social and human development process. Microfinance in Bangladesh also is an integral part of Bangladeshi financial sector. Microcredit in Bangladesh have positively affected individuals and households and strengthened Bangladesh economy by investing in the productive capacity of local communities. Microcredit also facilitated the inclusion of poor people in economic flows, supporting the growth of local markets and extending economic opportunities through new jobs, investments and infrastructure. Lastly, Bangladeshi NGOs/MFIs helped empower the

[13] Though otherwise reported by the banks. Most of the NCBs claim that their recovery rate is more than 80 percent, but reality is something different.

economically disenfranchised, through the provisioning of microfinance, by increasing their options and building their self-confidence through the greater economic participation. Though the Bangladesh microfinance have many achievements, so there are some problems that have emerged. Bangladesh is also out of the ordinary because of the high population density, the significant outreach achieved by her NGOs/MFIs, and the examples of Grameen Bank, BRAC or ASA considered by many to be the flagship of the industry worldwide.

The foremost problem, dropouts, that are a concern for all MF NGO/MFI in Bangladesh because of the cost of recruiting and training new members or clients to replace dropouts. Because of the cost of making the first small loan to new clients, lending usually does not become profitable in many programs until the third or fourth loan to a client. Retention, therefore, is key to profitability and sustainability. Of course, dropping out may be an advantage for a client if better services are obtained by switching to another organization. Little data are available on the rate and causes of dropouts, and even if available; sometimes the data reported include expelled clients. Dropout families tend to be smaller, with lower education, and more frequently participated in other NGOs/MFIs. The rigidity of the microlending model, especially the lack of entrée to savings in times of emergency, was identified as an important factor affecting dropouts. Planning and execution factors of microfinance programs of NGOs/MFIs also contributed to the high dropout rate. It is expected that some members switched to other NGOs or MFIs that expanded into their areas to escape the loan limitation. A sample of dropouts was asked to report their reasons for leaving. The largest number (33%) reported the loan amount was too small, followed by too many meetings (28%), meetings are too long (25%), did not want to pay for a defaulting member (25%), and loans were too expensive (22%)[14].

Secondly, the industry in Bangladesh has suffering from exclusion, or self-exclusion. Many qualified to be microfinance borrower families in Bangladesh that prefer not to participate in MF programs even though they lack entrée to formal finance. Bangladeshi NGOs/MFIs mostly do not get in touch with the poorest composed of widows, orphans, the chronically sick, and beggars etc. Several explanations, including self-exclusion and other factors, are provided for this fact: the poor are too risking disinclined to participate and sustain debt, they are too hectic eking out a living to participate in groups and attend meetings, members in group lending programs keep out the poor out of apprehension that they will not repay on time; and loan officers, who are evaluated on loan recovery performance, discourage the participation of the poorest out of fear they will not repay. The main reason given for not joining was that people felt they would not have income to pay back loans and would be forced to sell off what little belongings they had in order to repay. It is also hard for some women to leave home to attend obligatory meetings. ASA, in a 1997 study, reported on interviews conducted with staff and clients to conclude why its program did not get to many of the poor. The most common responses included the lack of minimum attire necessary to go to meetings, warning and intimidation from local elite, and age requirements (ages 18-50). By setting a relatively low maximum age requirement, ASA excluded old people who are often poor.

Third problem is delinquencies and defaults. These arise when borrowers are unable to repay, and also when borrowers do not value way in to future services enough to uphold a affiliation with a NGO or MFI. It is difficult to get a clear picture of loan delinquency and default rates in Bangladesh by consulting NGO/MFI reports because many make a mountain out of a molehill about their loan recovery performance. Some NGOs/MFIs use reporting definitions that are lenient by international standards, such as not classifying loans as overdue until one year after the final installment falls unpaid. Since loan size is found to be confidently interconnected with delinquency and default, it is rightly argued that speedy spreading out in lending contributed to the decline in recovery rates.

Lastly, the multiple memberships. Most NGOs/MFIs in Bangladesh forbid members from belonging to more than one organization at a time, yet manifold memberships or overlap exists. Since it is not in favor of the microfinance

[14] Richard L. Meyer (April 2002) Journal of International Development, Vol. 13, No. 3: The Demand for Flexible Microfinance Products-Lessons from Bangladesh).

convention, it is hard to get members to come clean to it. Moreover, little is known about such manifold memberships when all members of households are measured in compare to just individual members. Graham Wright reports that multiple memberships can be as high as 40-50 percent in areas where many NGOs/MFIs are operating[15]. Part of the rationalization is over-borrowing by members who borrow from one supply to repay another. But part of the reason is that the inflexibility of some NGOs/MFIs forces clients to deal with their money by working with several organizations at the same time. Moreover, if credit ceilings are low and all group members receive the same size loan, a vibrant borrower may need to borrow from a number of NGOs/MFIs to get the total sum most wanted. Manifold memberships can also take place when members shop around prior to switching from one NGO/MFI to another to get more smart services.

Looking Forward

NGOs/MFIs in Bangladesh must go away from the same microlending towards a second phase with more supple financial policies and products to meet client demands and preferences. Indeed, some NGOs/MFIs are already experimenting along these lines. The microfinance sector/industry in Bangladesh also needs to gain knowledge of from experiences in countries that are sophisticated in fixing these issues.

Firstly, flexibility needs in repayment schedules**.** The twelve-month group loan made to poor women with weekly installments and little or no grace period is the only product for most Bangladeshi microfinancing NGOs/MFIs. The benefit of this product is that it is straightforward for clients to comprehend, for loan officers to handle, and for NGOs/MFIs to keep internal control with essentially manual bookkeeping systems. Weekly meetings provide loan officers the chance to monitor clients and to accumulate loan installments and savings deposits. However, many clients do not have enterprises that produce a regular pattern of income that precisely matches this weekly repayment schedule. They have to make loan installments out of normal family income derived from other sources when income is not instantly earned from investments financed by their loans. Those with considerable agricultural income would be better served with seasonal loans. Even borrowers greatly motivated to repay occasionally become delinquent because of emergencies, unforeseen troubles and shortfalls in income. Adjustments are needed in their repayment schedules, including extensions for those likely to swiftly acquire enough liquidity to recommence normal payments, and formal loan rescheduling for those expected to face major longer-term repayment tribulations. Those who experience major disasters need new contracts that roll in excess of existing balances and offer new funds to resume income-generating activities.

Secondly, flexibility needs in loan sizes**.** Perhaps the single most important change that would be attractive to both existing and potential clients would be more flexibility in loan sizes. Some potential clients would borrow if they could get smaller loans while some dynamic clients with good repayment capacity would not drop out or incur the costs of multiple memberships if they could borrow larger amounts than permitted in the typical program. Group meetings are then used primarily as a method to reduce the cost of collecting savings and loan payments rather than to exert peer pressure on clients, although group leaders are still involved in assisting with collections from overdue borrowers. Weekly meetings are also discontinued entirely by some MFI loan officers for their long-term clients who organize informal collectors to assemble payments and passbooks for weekly collection and recording of payments by loan officers. Group meetings may have useful externalities for female borrowers as it gives them opportunities to leave the home and learn from other entrepreneurs, but meetings represent high transaction costs for many borrowers, and there is little evidence that useful training occurs in these meetings after the initial training period.

Thirdly, Bangladesh microfinance sector needs new product line. The 1998 flood in Bangladesh revealed the weaknesses of NGO/MFI savings programs for clients in times of emergency. First, most NGOs/MFIs require small amounts of compulsory savings so the accumulated balances were usually too small to cover the losses experienced by many clients. Only the clients of NGOs/MFIs that promoted voluntary

[15] Wright, Graham A. N., Microfinance Systems: Designing Quality Financial Services for the Poor, Dhaka: The University Press Limited, 2000.

savings, such as BURO Tangail, had accumulated substantial amounts of funds. Second, when Grameen, BRAC and smaller NGOs/MFIs opened entrée to clients' compulsory savings during the emergency, they struggled to meet the demand for funds. Grameen, for example, reported that 95 percent of affected clients' compulsory savings were withdrawn in the four months that entrée was permitted[16].

Insurance is another product that may appeal to the poor and is being introduced by NGOs/MFIs. It is still in the early stages of development and is often subsidized. INAFI Bangladesh is now conducting a survey and identified several NGOs/MFIs offering insurance in Bangladesh[17]. By making the coverage mandatory, the insurance is cheaper to provide and it reduces loan defaults and collection costs. The problem up to now has been that clients perceive that insurance is designed largely to protect the portfolios of the NGOs/MFIs so it is considered as just another cost of borrowing. Developing new products and institutions requires refocusing on clients, listening to their demands and preferences, and learning about their financial strategies. Understanding client behavior requires an awareness of the economic goals of poor households, of how poor people manage resources and activities, and how they deal with risk. Microfinance needs to be deeply reexamined, not simply fine-tuning the existing approaches. The entire sector/industry must rise above its institutional sluggishness of simply replicating existing models.

TAILPIECE

This writing tries to describe, in brief, the past and present of microfinance in Bangladesh, and tries to hint its future. Dropouts overlap and delinquencies appear to be rising, many of the poor refuse to use NGO/MFI products, and informal sources continue to be important for poor households. This point to the need for redesigning microfinance in Bangladesh. The changes required for the industry or sector whatever one calls it to better serves its clients are elemental and momentous. The microfinance industry/sector in Bangladesh must attribute new products and policies that will not be easy or simple to develop and implement not because it is difficult but because the industry/sector gets immense over here that prefers to maintain the status-quo. But, possibly, the industry/sector can simply function like the rural moneylenders do, lending and collecting whatever amount of money needed whenever by anybody, maybe at 12 o'clock at night to take someone to a nearby town for medical treatment, and on whatever terms of repayment schedule the clients want, essentially on a cheaper interest rate calculating the cost of fund plus operation cost. A simple 'collector' is enough per village, and it maybe possible because there will not be any social intermediation costs of such types of lending. Or it may not be possible either. Lets the sector/industry commission a pilot program to verify the hypothesis whether it is a practical proposition or not.

Microfinance for Sustained Income Security and Employment Opportunities

[16] Brown, Warren, and Geetha Nagarajan, "Bangladeshi Experience in Adapting Financial Services to Cope with Floods: Implications for the Microfinance Industry," Draft paper, DAI, Washington D.C., July 2000.

[17] Report is forthcoming, expected by February 2006.

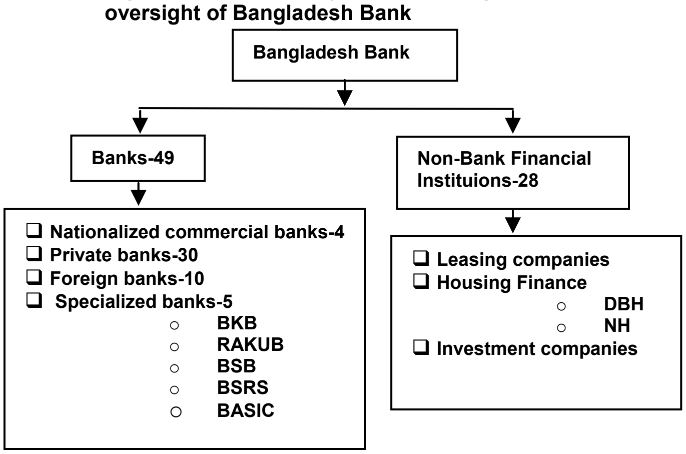
POLICY AND REGULATION OF MICROFINANCE IN BANGLADESH AND THE ROLE OF BANGLADESH BANK

Lila Rashid[18],
Joint Director Microfinance Research and Reference Unit, Bangladesh Bank

FINANCIAL SYSTEM OF BANGLADESH

Like many other countries Bangladesh Bank, the central bank of the country, does not regulate or supervise all institutions operating in the financial market. It mainly deals with two major players of this market; they are banks and non-bank financial institutions such as leasing companies, housing finance companies and some investment companies. Till now in Bangladesh there are 49 banks and 28 NBFIs who are under direct supervision of the bank (figure-1). In terms of number, private banks dominate the market they are 30 in numbers. However, in terms of operation actually 4 large nationalized commercial banks play the dominant role in the market, they occupy near about half of the market operation both in terms of deposit collection and credit disbursement. There are 5 specialised banks, two of them mainly operate in the rural areas of Bangladesh, one deals with small industry and the rest two deals with large industries. Among the 28 NBFIs currently operating under Bangladesh Bank's supervision, one is fully owned by the government, 2 are public sector joint ventures, 10 are private sector joint ventures and the rest 15 are locally owned private sector financial institutions.

Figure-1: Financial system of Bangladesh under the oversight of Bangladesh Bank



However, there are a few other players like insurance companies, co-operative societies and microfinance institutions who are outside Bangladesh Bank's oversight. The Ministry of commerce regulates insurance companies, co-operative societies are under the ministry of Local Government Rural Development and cooperatives and microfinance sector belongs to different ministries or departments of the government.

MICROFINANCE ACTIVITIES IN BANGLADESH

There are mainly five different groups involved in microfinance market; they are (a) commercial and specialized Banks, (b) Grameen Bank, (c) Non-government Organizations (NGOs), (d) government organizations and (e) cooperative societies. All banks are regulated by the Bangladesh Bank except Grameen Bank; the government regulates it directly. Banks have both direct and indirect linkage programs. Bangladesh Bank regulates banks by the Banking Companies Act, 1991; the basic concept of this Act does not fit with the concept of modern day microfinance. Collateral requirement, reserve requirement, capital adequacy, liquidity provisioning and some other necessary conditions are obligatory in case of banking law. Therefore, a separate law known as Grameen Bank Ordinance 1983 established Gremeen Bank. Through this Ordinance the government regulates it. Table-1 shows the regulatory environment of microfinance operation in Bangladesh.

Table-1: Regulatory environment of Microfinance Operation in Bangladesh

Dealing Institutions	Regulatory Authority
Banks-Bank--Companies Act, 1991	Bangladesh Bank
Grameen Bank--Grameen Bank Ordinance, 1983 Ordinance	Government
NGOs-- Under different Laws/ Acts	Different ministries / departments of GOB
Government Programs	Different ministries
Co-Operatives--Co-operative societies Ordinance, 1984	LGRD and Co-operatives Ministry

Among all these five players, the NGOs play most dominant role in this market and they take registration from different ministries or department of the government depending on their objectives (table-2). According to the Bangladesh Economic Survey 2004 the Government distributes microcredit through 13 different ministries and 15 departments. As

[18] Joint Director, Microfinance Research & Reference Unit (MRRU), Bangladesh Bank. The writer is only responsible for the opinion and comments in this paper.

mentioned earlier LGRD and cooperative ministry regulates cooperative societies by cooperative societies ordinance 1984. Table-3 gives the coverage of major institutions in the formal and semi-formal sectors. It shows that this program has been able to cover more than 15.2 million people till June 2003 that would be around 16 million at the end of 2004.

Able-2: Present regulatory system of NGO-MFIs (Heterogeneous)

Law	Dealing Authority
Societies Registration Act of 1860 Companies Act 1913/1994 as a non Profit Companies	Joint Stock Companies
Voluntary social welfare ordinance of 1961	Social Welfare Ministry
Foreign Contribution Ordinance of 1962 Foreign Donation Regulation Ordinance of 1978	NGO Affairs Bureau (Under this law no organization can be formed, it is just to give permission for foreign fund)
Trust Act 1882	Ministry of Law
-------------------------------------	Some are enlisted under Dep. of Family Planning, Youth Development and others

Table-3: Coverage of Microfinance Program
(As of June, 2003)

Organization	*Borrowers*
NGO-MFIs	8,894,969
Grameen Bank	2,786,748
BRDB	709,073
PDBF	272,349
Department of Youth Development	123,800
Department of Social Service	48,469
BSCIC	42,837
BARD	43,123
Sub Total	**12,921,368**
Nationalized Commercial Banks	2,159,927
Private Banks	117,954
Sub Total	**2,277,881**
Grand Total	**15,199,249**

MICROFINANCE ACTIVITIES OF NGOS

Semiformal NGOs are the major players of microfinance market in Bangladesh. A rough estimate states that near about 60% of the total market is occupied by them. The NGOs are taking registration as non-profit social development organization under different laws from different ministries or departments of the government. However, it needs to clarify that nothing is mentioned in any laws under which they take registration for microfinance or microcredit. Therefore, NGOs are doing microfinance/ microcredit operation as part of its social development work. Some of them have started microcredit operation from the inception and some of them have started it sometime later during their other operations like health, education etc. So, there are two types of organizations, some have clear focus on microcredit operation and the others have mixed programs; ASA leads the first group and BRAC/ Proshika lead the second group. Table-4 shows the highlights of microfinance operation of 352 NGOs as of December 31, 2004 (MRRU, 2004).

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Maps on Microcredit Coverage in Upazilas of Bangladesh, PKSF (2004).

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Proshika lead the second group. Table-4 shows the highlights of microfinance operation of 352 NGOs as of December 31, 2004 (MRRU, 2004).

Table-4: Highlights of 352 NGO-MFIs reported to MRRU, Bangladesh Bank as of December 31, 2004.

Reported NGO-MFIs	352
Number of Branches	6106
Total employees	48081
Total members (million)	14.40
Total borrowers (million)	11.14
Total savings (million taka)	14,293.71
Cumulative disbursement (million taka)	337,930.48
Outstanding loan (million taka)	43,406.36
Average savings per member (taka)	1201
Average loan per borrower (taka)	3897
Average borrower to member ratio (%)	77
Average savings to outstanding loan ratio (%)	40
Average service charge (flat)	15
Average recovery rate (%)	93

Triggering Issues Related to Regulation and Supervision of NGO-MFIs

NGOs are operating in Bangladesh since after independence in 1971; BRAC has started operation in 1972 just after the liberation war for relief and rehabilitation activities. (ASA) has emerged in 1978; but it has started microcredit program in 1992. Proshika had been established in 1976, it also started microcredit operation later. Like BRAC, ASA and Proshika many NGOs have started microcredit programs some times later after other operations. The concept of microfinance emerged in Bangladesh in mid 1970s; it received widespread attention by late 1980s and experienced huge growth during the last 15 years. Now there are more than 1000 NGOs who have microfinance operations in Bangladesh. This substantial increase of NGO-MFIs in numbers has drawn attention from policy makers. This is one of the issues, which triggered the matters related to the regulation and supervision of microfinance sector in Bangladesh.

It is well known that savings from the members is in build within the system of microcredit operation. At the initial stage it was limited within compulsory types of savings, the institutions have developed new products as time goes. Now verities types of savings and credit programs are offered by NGO-MFIs for their beneficiaries. Some of them have started insurance policies too. These are all new types of financial products available for special target groups of this new segment of financial market. Till December 2004 NGO-MFIs have collected more than taka 17, 293.71 million that provides 40% of their total outstanding credit of that time. This percentage is increasing with time. A few questions are related with these financial product delivered by NGO-MFIs. For example, how member will be defined? According to current status members of NGO-MFIs are actually beneficiaries or clients, they are not the members like Co-operative system or Grameen Bank who own the share of the institutions. Whether NGO-MFIs should be permitted to collect and provide these types of savings and insurance services? Whether they have sufficient arrangement or capacity to manage these services? Whether they should be permitted to use this savings for other purposes (other than microcredit)? What is the protection of this savings? Whether the system is enough flexible to permit savers to use it when necessary? How savers expected return could be ensured? All these and other related issues raise questions regarding regulation and supervision of this sector.

Initially microfinance operation in Bangladesh has started with the active support of donors, during that time lions share of Revolving Loan Fund (RLF) came through donor's channel. But it has decreased over time. Before 1996 it contributed more than 50% into RLF, which dropped to 12.7% in 2003. It is assumed that direct contribution by the donors in RLF may vanish in future. On the other hand, members' savings and service charge are emerging as two important internal sources of fund, which together contribute near about 60% in the RLF. Therefore, tapping local fund is coming as one of the emerging issues for this sector, however it is connected with the legal issue again.

There are some other issues related to regulation and supervision of MFIs that are coming upfront with the emergence of microfinance service as an important financial instrument for the bottom half of the population who remains outside the periphery of formal financial system. These are:

- Minimizing mismanagement of fund by ensuring proper method of financial disclosure;
- Establishing good governance by providing guidelines;
- Providing guidelines regarding uniform accounting and monitoring system;

- Finding out effective rating system to identify well performing institutions;
- Linking NGO-MFIs with formal financial market;
- Bringing them under a single authority to supervise;
- Building solid legal foundation to operate in the rural financial market;
- Bringing less prosperous population of the society under formal financial system.

Steps Taken by the Government

All the issues mentioned above actually led the policy makers to think about the regulatory and supervisory aspect. "Channelling special fund for this sector through a single authority might help keeping records and monitoring the system well" was one of the important ideas behind establishing the apex body PKSF. It is a 'Company not for profit" registered under the Companies Act of 1913/ 1994, it has been established for helping the poor as well as to help building and strengthening the institutional capacity of the organizations for improving their efforts at providing access to resources for the poor. PKSF is helping in building capacity of its Partner Organizations (POs) who actually are occupying the major share of this market.

After 10 years of establishment of PKSF government created another Unit namely MRRU in Bangladesh Bank to develop uniform policy, monitoring system, performance standard as well as a regulatory framework for this sector.

MRRU is an abbreviation of Microfinance Research and Reference Unit. It was established by GOB in June 2000. The Unit is housed in Bangladesh Bank. A national steering committee was also formed to oversee the work of the unit and to formulate the regulatory framework. Governor of the Bangladesh Bank was the chairperson of the committee. An Executive Director of the bank has been working as the member secretary. Other eight members were selected from related public sector and private practitioners.

Terms of Reference of the Steering Committee formed for Micro finance Research and Reference Unit (MRRU) are as follows;

1) Formulation of policy guidelines to regulate the NGO-micro-finance institutions and setting performance standard to ensure their qualitative improvement.

2) Preparation of uniform accounting guidelines for micro-finance institutions to ensure their transparency and accountability.

3) Monitoring the activities of the MFIs in compliance of the policy guidelines prepared by the committee.

4) Recommendations for preparing a legal framework in support of the Micro-finance Research and Reference Unit or a new regulatory body in its place to act as the regulatory authority for the micro-finance institutions.

MRRU has prepared a guideline for NGO-MFIs and requested them to provide information to the Unit according to the instruction given. Guideline contains:

MIS Format, which contains information on working areas, group and Member, savings, use of savings, credit disbursement and realization, and receipts and payments of credit. Till now near about 700 institutions have reported to the Unit.

The Financial Guideline contains of accounting policies, application of accounting standards, financial reporting, record keeping and accounting, audit requirements and reporting formats.

It also contains guidelines for Internal and external Auditors. The guideline for internal auditor mentions how to prepare management report, audit reports, and field inspection reports. The guideline for external auditors mentions that Audit firms should be enlisted with NGO Affairs Bureau, it would follow International accounting standard and it would also be based on the requirement of regulatory agency.

The guideline related to the performance indicators and standard discusses about program's viability of borrowers, institutional viability and financial viability. Different weights were given on these three areas of viability, institution would be considered viable if it can prove itself as a well performing institution in all areas mentioned above.

After getting information from the institutions the Unit stores and analyses them to get valuable policy inputs. Till now one report has been published by the MRRU. The Unit also circulated a public notice to stop taking deposits from non-members. A functional definition of members was also circulated in November

2004. It states that **'Member'** is defined as listed microcredit program participant by NGO-MFI in accordance with declared terms and condition of the institution waiting for credit from that institution within 12 weeks from the date of enrolment into the list[19]. It is also providing training to the NGO-MFIs on the guideline, till now more than 500 institutions have taken training from MRRU. It is also working to up to date the list of NGO-MFIs operating in Bangladesh.

The Steering Committee related to the Unit has prepared a draft law for this sector, which is now under active consideration of the government. It is expected that after the promulgation of this new law NGO-MFIs will be under a single regulatory system or authority.

ROLE OF BANGLADESH BANK

Bangladesh Bank Order1972 established Bangladesh Bank. The Bank Companies Act 1991 empowers the bank to regulate and supervise the banking sector to the country and the Financial Institutions Act 1993 empowers it to regulate and supervise NBFIs, leasing and other investment companies. Bangladesh Bank has been supervising Grameen Bank since 1997-98. However, the supervising technique differs from the traditional supervising technique applicable for commercial banks. Bangladesh Bank is yet to develop the right kind of supervising technique for this kind of special microfinance bank.

Bangladesh Bank fully recognizes the importance of microfinance in the overall economy of the country. But, it is not yet involved directly with the development of this sector. Its role is being mainly the regulation, supervision, and orderly development of the formal financial system as well as the promotion of poverty-related lending by the specialized agricultural banks and NCBs. Because of its present burden of work, it recognizes the limitations faced by it in undertaking these tasks of regulation and supervision efficiently and effectively (ADB, 2000). Since the bank was established to manage the monetary and credit system of the country, it has some obligation to ensure soundness of the financial market.

Bangladesh Bank played direct role in the development of Grameen Bank. It has provided technical support to the Grameen Project at the early stage of the bank and supplied soft loan to Grameen Bank during its initial period. Currently it is playing the promotional role instead of developmental for sustainable development of this sector. It includes channelling support through the banking system by establishing linkage with NGO-MFIs. In addition to this currently the bank is providing financial and technical support to MRRU- for collecting information, preparing guideline, providing training to NGO-MFIs, analysing data and making policies for this sector.

Bangladesh Bank has given special attention on poverty alleviation programs. It has given instruction to the banks to maintain special allocation of loan fund for poverty alleviation program. It is encouraging banks to provide loan to the borrowers on the basis of their creditworthiness instead of collateral. Fisheries, Livestock, and other small business were considered as special privilege sector for getting this credit fund. The bank is continuously monitoring the real disbursement by the banking system for this sector.

The bank is also acting as an implementing agency in different donors and government supported programs for poverty alleviation. It is operating different refinance schemes for small enterprise development including agro processing industries and crop production.

FUTURE CHALLENGES

Still there are some significant issues related to this sector that need to be addressed by the policy makers.

One of these is mode of regulation, which means whether all NGO-MFIs including very small NGOs will be under prudential regulation? Whether organization, which does not collect any forms of savings, should be under prudential or non-prudential regulation?

Another question is related to the type of regulation. Which means whether all big and small MFIs will follow the same system at the same time. Or, whether big NGO-MFIs will be considered first and others will be treated later?

[19] This definition of membership actually implies that anybody who has started to save or deposit in a MFI will cease to be a member of that institution if she/he does not receive any credit from that MFI within three months from the inception of the savings/ deposits scheme. But in reality NGO-MFIs do not practice this definition.

Since, technique of supervising and monitoring banks may not be exactly suitable for this kind of specialized institutions then what will be the effective supervision and monitoring technique for them? NGO-MFIs mainly operate in the rural areas, which sometimes is very difficult to reach on time, communication system is generally poor in the rural sector, and so by considering all these problems and by considering their non-traditional method of operation what kinds of technique will be suitable for them?

On the other hand supervision and monitoring actually involve huge cost, who will bear that cost? How to develop cost effective technique of supervision?

The idea of microfinance bank is one of the major emerging issues in the discussion of microfinance. How to handle and realize this issue?

Which level of operation would be effective as well as manageable? What kinds of services are expected from this newly developed institutions from both supply side and demand side?

And the last but not the least important question is who will be the regulator of this sector?

All these issues are in the basket of discussion of the policy makers. It will not be solved in a day, solving one question will raise several questions; it is a continuous process of development. Unfolding the issues, raising questions and several experiments over time may help developing the sector in a sustainable manner.

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FINANCIAL SERVICES FOR THE EXTREME POOR IN BANGLADESH—THE EXPERIENCE OF BRAC

Shabbir Ahmed Chowdhury
Director
Microfinance, BRAC

INTRODUCTION

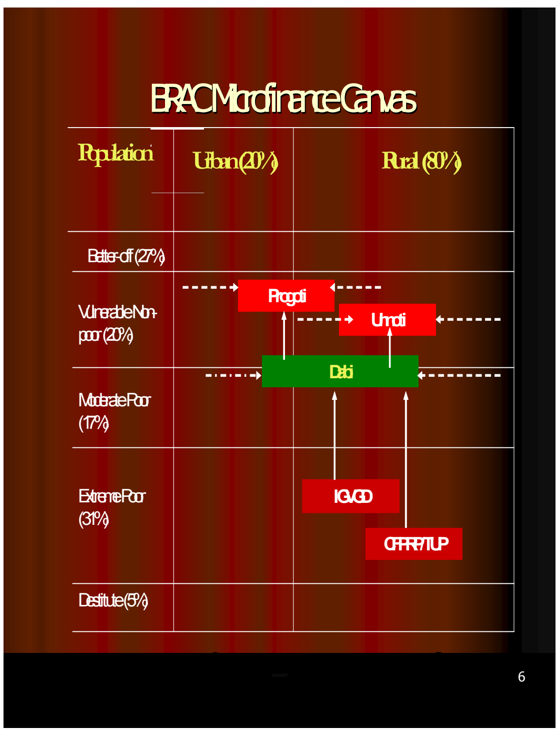
BRAC, formerly known as Bangladesh Rural Advancement Committee, was established as a relief and rehabilitation organization in 1972 after the liberation war of Bangladesh. From a relief organization BRAC has gradually evolved into a large and multifaceted development organization focusing on sustainable development and empowerment through its micro-finance, health, social development, education, training and research programs.

BRAC differs from other micro finance institutions (MFIs) in its realization that poverty is a multi-dimensional concept and their development needs are not homogeneous either. BRAC's understanding to this reality is marked in two ways. First, BRAC has always opted for the credit-plus approach, where loans are given to poor women to bring them under a comprehensive support system in forms of skill training, non-formal primary education for their children, health care, social development services and the creation of grass-root organizations for the poor. Second, in order to reach the diversified groups of the poor and serve their diversified needs, BRAC applies different micro finance approaches. As of August 2005, the program had reached over 5 million village members of whom 99% are women.

It has been observed that the moderate poor, as well as the vulnerable non-poor households are the principal users of micro-finance. As compared to extreme poor households they are more likely to join an NGO, more likely to take a loan, more likely to take incrementally larger repeat loans and more likely to develop profitable businesses with their loans. There are several reasons why the extreme poor households are less likely to join or, once joining, less capable of making effective use of loans. Perhaps the most common factor is that households need an existing source of regular income to participate effectively in micro finance. Repayment conditions typically require payment on weekly basis as soon as the loan is taken, and in many cases, the cash inflow to the extreme poor has never been regular. For households without such an assured repayment source and regular cash inflow, taking a loan is simply too risky. Very often, given the nature of the game, NGO staff or other borrowers will discourage such poor households joining the micro-finance schemes.

It is the members of this extreme poor group that are particularly disadvantaged using conventional micro-finance instruments and it is for this group that new modes of intervention are needed. This is a new frontier in the poverty reduction challenge.

BRAC Micro-finance Canvas



I. Micro-finance Schemes for Moderate and Vulnerable Non-poor:

BRAC launched its Micro finance program in1974. At present there are three different products exist in the market started by BRAC. These are Dabi, Unnoti and Progoti.

I.A Dabi

The goal of Dabi is to cater the moderate poor in rural areas and urban slums in Bangladesh. This program organizes landless groups in these areas and provides them with financial services and credit and self-employment opportunities. Dabi provides different schemes of financial services including collateral-free loans and savings facilities to low income households so that they can better manage their cash flow and take advantage of new opportunities. Till September 2005, the number of outstanding members is 4.62 million. Other key features of the Dabi
program are as follows:

- Loan size range: US$60-US$300.
- Service Charge: 15%
- Repayment Period: 1 year
- Repayment Mechanism: Equal Weekly Installments
- Loan Products: General sector, Housing and Emergency (Given at the time of disaster)
- Weekly Personal Savings
- Compulsory Savings: 5% of loan amount
- Death Benefit: Tk. 5,000

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I.B Unnoti (Economic Development Program)

Considering the existing situation of farmers in rural areas in which lack of capital results in unsatisfactory output levels, BRAC has taken initiatives for agro-based production enterprises with a view to benefiting the small and marginal farmers. This initiative is known as Unnoti (Economic Development Program), launched in 2002. The goal of Unnoti is to provide financial services to the small and marginal farmers to meet their particular needs. As on September 2005, the number of outstanding beneficiaries is 368,537. Other key Features of Unnoti program are as follows:

- Loan range: US$ 225- US$ 760
- Service Charge: 15% flat rate
- Repayment period: 46 weeks (1 year)
- Repayment mechanism: Equal weekly installments
- Loan products: Agriculture, Poultry & Livestock, Rural trading etc.
- Emergency loans are also given at the time of disaster

I.C Progoti (Micro Enterprise Lending Program)

In order to generate income and create new employment through enterprise development in the rural, semi urban and urban areas of Bangladesh, BRAC launched its Progoti (Micro Enterprise Lending Program) in the year 1997. The target of Progoti program is to provide credit facilities and technical assistance to new and existing small businesses and graduates from Dabi and Unnoti programs whose access to banking sector is still limited in rural and semi-urban areas in Bangladesh. Through this program BRAC has addressed the financial needs of the 'missing middle', who neither belongs to the target group of MFIs nor have much access to the commercial banks. BRAC has also introduced Women Entrepreneurship Development Program (WEDP) as a component of Progoti scheme, solely for women entrepreneurs. As on September 2005, the number of outstanding beneficiaries is 72,586. The other key features of the Progoti program are:

- Loan range: US$ 750-US$ 4,550
- Service Charge: 15% flat rate
- Repayment period: 12 or 18 months
- Repayment mechanism: Equal weekly installments
- Collateral needed: Mortgage and Title Deeds

II. Micro-finance for the Extreme Poor in Bangladesh

BRAC's micro finance programs are about building ladders of opportunity for the extreme poor – those who tend to be left out of conventional micro finance programs. The idea is to design subsidies in ways that strengthen the initiatives for the extreme poor so that they also over time can build the capacities to benefit from micro finance and other mainstream development programs. The Income Generation for Vulnerable Groups Development (IGVGD) and the new BRAC program for the ultra poor CFPR/TUP are examples of this approach.

II.A Income Generation for Vulnerable Group Development (IGVGD)

The Income Generation for Vulnerable Group Development (IGVGD) program is a collaborative food security intervention for destitute, female-headed households (that are at the highest risk of hunger) jointly led by the Government of Bangladesh, the World Food Program and BRAC. BRAC recognizes the fact that the poor are not homogeneous and through its experience, BRAC had discovered that it is difficult to include the poorest in its conventional micro finance operations. There are both supply side and demand side reasons for the exclusion of hard core poor from micro finance programs. On the supply side, many of the hard core poor are considered as potentially risky and this group of poor lacks the asset base and regular cash inflow to make loan repayments. On the demand side, the hard-core poor often self select themselves out as they lack the confidence to join credit programs. Often they do not consider themselves as credit worthy as they feel that they do not have enough resources to pay back loans. The IGVGD program is a separate entry point to involve the destitute in its development activities.

The IGVGD members occupy the bottom rung of the socio-economic population ladder. The program helps the extreme poor to attain a basic level of food security, provides them with training to build up their self-confidence and skills, and a timely supply of high-quality inputs and credit to give them the opportunity to start their own income generating activities. In 1985 BRAC approached the WFP for food assistance under its Vulnerable Group Feeding (VGF) program and in 1987 the program was renamed as IGVGD. From 1989 BRAC started to provide credit support to IGVGD members in addition to other existing food assistance and training services.

The selection criteria of IGVGD members into the program are determined by the Government of Bangladesh and the World Food Program and BRAC. Local elected representatives together with BRAC selects women entering the program as recipients of free food grain.

In addition to training, BRAC provided with a package of basic health care services and intensive follow up and supervision to the IGVGD participants during the 24 months of WFP wheat transfers. The VGD cardholders receive a monthly ration of 30 kg. of wheat per month for 24 months. From 1988-2003, a total of 2.27 million VGD cardholders were provided basic skill training and within the same period a total of US$ 59.16 million loan was disbursed among 1,142,654 borrowers. The first IGVGD cycle span was from January 2003 to December 2004. This is a 2-year cycle program, with new admission after each cycle. The current cycle is being implemented in 268 upazilas of 43 districts. There are currently 3,24,470 VGD cardholders. Out of this number, BRAC will cover 2,92,200 women under the development program.

At present BRAC is involved in providing following services to the IGVGD program participants:

- Food rations for 24 months
- Group formation (admission to BRAC Village Organization)
- Social awareness training
- Enterprise development training
- Credit support
- Mandatory savings of US$ 0.40 per month, as per GoB and WFP requirements
- Input supplies
- Technical support
- Intensive monitoring, follow-up and supervision

Table 1: IGVGD selection criteria

Pre-requisites:	Participation Criteria:	Households eligible for priority selection:
The VGD woman must be: -Permanent resident of respective union. -Of reproductive age -No household association with any NGO -First time VGD cardholder under program -One card per household requirement	- Ownership of less than 15 decimals of land - Monthly household income less than US$ 4.40 - No productive household assets	-Female-headed household -Women who are physically and mentally fit to undertake an IGA.

The provision of food grain under the IGVGD program allows the program participants to save their little earnings, which they would have otherwise spent on food. The initial money they receive as loans or the savings they build up, permit them to start income-earning ventures. Having access to both food grains and loans at the same time provide them with a breathing space and allow them to reinvest earnings into their business and meet repayments.

BRAC Village Organization membership is essential for all IGVGD members. It allows them to receive all BRAC development services, such as loans, legal aid, legal education and health services, at the VO level. IGVGD members finance their IGA through a VO loan, the first of which starts from US$ 44. The first loan is disbursed on completion of training. Weekly repayments are due immediately. On repayment of the initial loan participants may apply for a larger loan if required for the enterprise. The food ration period will typically end before the second loan is repaid. Upon completion of this repayment IGVGD graduates are channelled into normal micro finance membership.

A mandatory monthly savings scheme of US$ 0.40 is an integral part of the IGVGD program. BRAC pays a 6 percent return on these savings. IGVGD members must deposit the money and present the deposit slip to the Union Parishad to receive their food rations. At the end of the food ration period, members may continue with their saving scheme as a regular VO member. Between 1988-2004, a total of 1.75 million VGD cardholders were provided basic training and within the same period, a total of US$ 55.23

million in loans was disbursed among 1,217, 519 borrowers.

II.B Challenging the Frontiers for Poverty Reduction: Targeting the Ultra Poor (CFPR/TUP)

A common element of poverty for both the poor and the poorest is their exclusion from essential health-care facilities. Issues of access, of affordability, of information and of understanding all undermine their capability. A rights-based approach to improve these capabilities through a needs-based and people-centered commitment on service delivery is an urgent priority. It is also evident that the weak socio-political assets of the poor, particularly those of women, affect access to many rights and most services. Strengthening these assets requires, first of all, providing a supporting organizational base that gives voice to the poor. Secondly there is a need for effective advocacy on behalf of the poor to help ensure that their voice is heard. This is both at local–level where poor people's legitimate rights are frequently brushed aside by the powerful and at higher levels where advocacy needs to address policy design and resource allocation to help ensure that poor people's interests are represented. This is termed as pushing out the agenda, to challenge these socio-political frontiers and is the second major area where new instruments for intervention are needed.

Therefore, these people face social discrimination as well as exclusion. For BRAC, the agenda is about pushing down its intervention by developing new instruments relevant to the livelihood strategies of these ultra poor households. That is why, BRAC has introduced the project named **"Challenging the Frontiers of Poverty Reduction: Targeting the Ultra Poor – Targeting Social Constraints"**, in short CFPR. The project that started from 2002 will be implemented over the five-year period from 2002 to 2006.

The CFPR program is designed to offer the potential for a broad based and multidimensional attack on poverty. BRAC has made a significant contribution to the success of Bangladesh's poverty reduction program for the last thirty years through its micro finance programs as well as through sectoral interventions in health, education and social development. However, research has shown that the poor are not homogeneous that is, there are varying levels of poverty, ranging from the moderate poor at the top to hard core poor at the bottom of the range. Furthermore, it is the moderate poor who have benefited most from the poverty reduction programs operating to date as the bottom level of the poor are either unable/unwilling to add to their precarious position by taking on the financial burden that comes with assistance through micro finance programs or because they have been overlooked by micro finance program operatives who view them as high risk candidates.

Moreover, the comparatively better off VO members are often reluctant to include this section of people in their organizations. According to some better off VO members, poor people will be more prone to defaulting on their loan instalment payments and in order to ensure that the VO does not acquire a bad name, the richer members will have to take responsibilities to ensure timely loan repayments. This creates a great deal of trouble and animosity within the VO. Therefore, whenever NGO authorities seek their opinion regarding the inclusion of a poor person in the VO, better-off VO members always respond in the negative. It is this group of hard-core poor (referred to as the specially targeted ultra poor or STUP in the project) that is the main focus of the CFPR program.

The core rationale of CFPR program is that it proposes the use of new instruments of intervention to address these two areas – pushing down and pushing out the frontiers of poverty reduction agenda.

Objectives

- To strengthen the asset base of the ultra poor households in rural Bangladesh.
- To build human and social-political assets and change structures and processes –through institution building, awareness raising, social action and advocacy.
- To ensure that the poor segment of the community has access to basic health services.

The CFPR/TUP program is specially designed to meet the demands of the Ultra Poor, who are among the poorest in the country. This program organizes destitute, women-headed households by transferring productive assets, providing basic skills training, and support programs such as health and legal services. The strategy is to help ultra poor build a solid physical and socio political asset base. The whole idea behind TUP is to enable the ultra poor develop new and better options for sustainable livelihoods. This requires a combination of approaches, some promotional such as asset grants and skills training and some protective such as stipends and health care services. It also requires addressing constraints at various levels – household and the wider environments of institutions, structures, and policies. The components of the CFPR/TUP program are as follows:

II.C Special Investment Program for the Specially Targeted Ultra-poor (STUP)

The Special Investment Program's mandate is to initiate a sustainable livelihood improvement among rural ultra poor women. BRAC will achieve this through socio-economic input access, including those developed by BRAC. Additional strategies include intensive training with stipend provision and asset transfer. BRAC staff diligently supervises the development of the Income Generating activities chosen by the STUP members.

To be selected for the Special Investment Program, women have to meet at least 2 of the 5 criteria listed below:

- Dependence upon female domestic work or begging;
- Owning less than 10 decimals of land;
- No adult active male members in the household;
- Children of school going age have to take up paid work.
- Households with no productive assets

Apart from the above criteria, followings were the mandatory prerequisites for participation in the program:

- There should be at least one adult, active woman member in the household capable of getting involved in an income generating activity. She may be physically handicapped, but as long as she can get involved with an IGA, she will be included in the program.
- No household member should be involved with any development program or with an NGO.

Employment and Enterprise Development Training

The promotion of diversified income generating activities, coupled with relevant training, can allow extremely poor women to attain a level of economic status to fulfill their basic needs. In this regard, the Employment and Enterprise Development Training component provides a customized approach.

Social Development

This component is a social safety net for ultra poor women to encourage individual and group problem solving. This support complements the other components, such as asset transfer and stipend, employment and enterprise development training and essential health services, by helping participants deal more effectively with downward economic and social pressures. This support is also critical to improve the ultra poor's capacity to deal with risks, to reduce their vulnerability and to help them transition to the mainstream development process.

Essential Health Care

Under the CFPR's health component, STUP members are entitled to free basic health services and subsidized health products. The program also includes referral arrangements for STUP members.

The CFPR program thus seeks to "push down" by specific targeting on the very poor households who have suffered relative neglect in most interventions to date. The CFPR Program also seeks to "push out" by addressing neglected dimensions of human capital and by seeking to strengthen the voice of the poor in the structures and processes that determine livelihood outcomes. Thus the ultimate goal of CFPR program is to strengthen livelihood conditions of the ultra poor so that they can "graduate" to any formal micro finance program.

From 2002 to 2003, a total of 10,000 STUP members were provided with assets for various agro based and non-farm Income Generating Activities (IGAs) and they also received the necessary enterprise development training required for their chosen IGAs. The changes that are taking place in the lives of the ultra poor targeted by the program also show promising results. The program has produced noticeable gains in social and human capital. It is evident that a majority have escaped their ultra poor status and acquired a poor but improved standard of living.

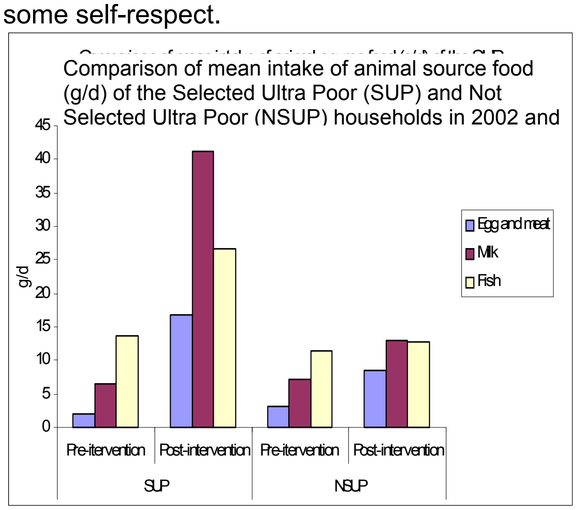
Table 2: Program Coverage of CFPR/TUP

S	Description	2002	2003	2004	2005	2006
1	No. of STUP women to be targeted	5,000	5,000	10,000	25,000	25,000
2	No. of Districts	3	7	12	-	-
3	No. of Upazila	21	42	52	-	-
4	No. of offices/area	38	68	67	-	-
5	No. of STUP women to receive assets	5,000	5,000	10,000	25,000	25,000
6	No. of STUP women to receive training	5,000	5,000	10,000	25,000	25,000

Before being included in the CFPR program, most of the STUP members worked as day laborers, domestic aid and some even used to beg for living. They had to go through immense hard work just to ensure two meals a day, which in most of the times could not be guaranteed. After their inclusion in the program they have experienced an economic uplift and gained social status. Not only did the members attain the ability to assure regular meals for the family, also they are able to meet other household requirements that includes in most cases rebuilding their once torn shacks, leasing or buying cultivable lands and other household assets. Their performance is not limited here. They are able to save a handsome amount after all these expenditure is met.

Apart from their financial upsurge, the STUP members also experienced improvement in their social and health status both in terms of service provided as well as awareness raising education. After being enrolled in to the CFPR program, the STUP members are made aware of the various social ills such as illegal divorce, dowry, polygamy, early marriage, marriage registration etc. and as a result of such awareness raising education STUP members have been successful in implementing these lessons in their daily lives. The program also puts emphasis on the participation of the community in order to create a safety net for these ultra poor members. This has led to the formation of the Poverty Alleviation Committee at the village level in order to ensure the commitment of the community members to extend all sorts of social security to the STUP members and thus creating an enabling environment for them. Such efforts place emphasis on making the community people more aware of the ultra poor's problems and crises, giving a right solution to their problems, mobilizing local resources and supports for the ultra poor from local service providers, NGOs, government departments and others.

It is perceived that until now though not all, but almost 80% STUP members have the prospect for sustaining the improvements enterprises into the future. Incorporating these STUP members strategically in to the micro finance program could lay long-term sustainable foundations for food security and livelihoods improvements. Joining in the conventional micro finance activities will not only help them to sustain their livelihood activities, but would also help them to access the continued BRAC support on health issues and various social developments needs. After their joining in the regular micro finance program, they will be organized into groups and will be provided with credit services and skills training. They are also required to save on a mandatory basis. The savings service will allow these women to accumulate some financial resources over time. Small amounts of credit would help them become comfortable with handling money and would instill financial discipline. Training will provide these women with simple skills to run micro enterprises. Participation in groups would make the women more confident and would help them to gain some self-respect.



Comparing “selected” and “not selected” Ultra Poor over time

% of HH’s reporting to be in…	Selected Ultra poor (SP)		Not Selected Ultra Poor (NSU)	
	2002	2004	2002	2004
Chronic deficit	62	2	41	25
Occasional deficit	35	21	51	50
No deficit	3	77	8	25
Total food intake (gm)	759	998	795	807

CONCLUSION

From BRAC’s experience it is evident that the inputs provided by BRAC have had significantly positive impact on the socio-economic well being of participants. Member households have higher assets as well as higher net-worth (net-worth is the sum of assets and savings less loans outstanding) than non-members. Their average per capita calorie consumption and total food and non-food expenditures are also significantly higher than those of non-members. They have better housing facilities, and enjoy better health and sanitation facilities. Participation in income generating activities, increased ownership of assets, mobility and increased self-confidence helped BRAC members to improve their empowerment.

The results of the ‘empowerment’ continua seem to indicate that women experience these changes over time according to the length of time they spend in BRAC. BRAC is further considering its program strategies to ensure that these changes can be expedited and sustained in the long run. A major impediment may be the existing socio-cultural norms, values, beliefs and practices of rural Bangladesh, which are generally not receptive to these BRAC affected changes in women’s lives. Program may be initiated at community level to improve the awareness level among rural people in this regard. BRAC expects that apart from changing women’s lives, it can also play an effective role in bringing about changes in the mind-set of society to ensure the long run sustainability of its poverty alleviating interventions.

MICRO INSURANCE (MI) PRODUCT: AN INNOVATION OF PADAKHEP

Iqbal Ahammed
Executive Director, Padakhep

1.0 INTRODUCTION TO PADAKHEP MANABIK UNNAYAN KENDRA:

Padakhep Manabik Unnayan Kendra (PADAKHEP) established in 1986 is a not-for-profit non-government organisation (NGO) committed to participate and promote national development through upgrading the socio-economic condition of the disadvantaged and underprivileged people of the society.

PADAKHEP is a national NGO has been implementing Holistic Microfinance Programme in Bangladesh since 1998 with a goal to improve quality of life of the poor and the community people as a whole. Now it has 0.1 million borrowers from different target groups like: landless, hardcore poor, marginal farmer, small farmer, tribal, fishermen, street children & their guardians, etc. Its current outstanding is about US$ 16 million.

Under Holistic Microfinance Programme Padakhep have been introduced 12 different Loan and 04 different savings products. In addition to microfinance it has other programmes like, Agriculture, Health, Education etc.

2.0 INTRODUCTIONS AND BACKGROUND TO MICRO INSURANCE PRODUCT OF PADAKHEP:

PADAKHEP introduced Micro Insurance Product under its Holistic Microfinance Programme in 1999 with the following practical questions:

If a poor loanee member dies after taking loan what will be the credit status of that loanee member? After death of the loanee member, will his/her family members have to pay that loan? In religious sense if one dies in debt, his/her soul will never get peace. This thought always chases away the loanee member. PADAKHEP always respects such feelings of the loanee member. On the other hand, among the borrowers there are some absconding members found. Long absence of the loanee member in the locality and not paying the instalments of loan, we face over-due problems.

Sometimes loanee's IGA/Project sustains loss for flood/natural disaster, situation created politically or socially, physical illness or any accident of the IGA/Project implementer including death of husband of the women borrower. PADAKHEP believes financing to its borrowers rather than crediting. PADAKHEP innovated Micro Insurance (MI) Product and introduced in its sustainable microfinance practices to successfully address all those risks / hazards.

3.0 METHODS OF IMPLEMENTING MI PRODUCT:

Beneficiaries' sustainability is the major concern of the organisation; as such Micro Insurance plays the role in order to face the various types of risks / hazards of the microcredit borrowers. There is no scientific or formal method adapted to implement MI product. Insurance product linked with the mainstream microfinance practice as a strategy of credit risk management. No standard methods of risk measurement are followed. So the coverage of the insurance determined on the basis of the experience of the microcredit practice. The factors identified as risks are also from the experience of the microfinance practices. The members / borrowers are educated / award on the insurance and its overages while they become member of PADAKHEP. No separate deed or papers are signed with the borrowers. This is simply an understanding between the members and the organisation.

3.1 Who are covered under the Insurance?

100 percent of the borrower members of PADAKHEP are covered under the Micro Insurance Product.

3.2 Premium Amount of Insurance:

A loanee member has to deposit 1percent of the taken credit as insurance premium, whatever the amount and period of loan is. This 1 percent was determined on the basis of the target coverage both outstanding & borrowers, which is affordable and acceptable to the borrowers.

3.3 How Premium Realized?

Mandatory premium for each of the PADAKHEP borrowers are collected at the time of loan disbursement.

3.4 Accounts & MIS

Separate Accounts and MIS are maintained on insurance product performance. Surpluses of insurance premium are reserved as fixed deposits in bank. Around 20 percent fund are kept as liquid for meeting up of claims.

3.5 Details of Insurance Coverage:

SL.	Coverage Issues	Benefits Given
01.	Death of a Loanee	a) On the death of a loanee member, his/her outstanding loan (including service charge) are adjusted with the savings that is deposited till the date of the loanee's death and the balance outstanding loan isexempted. b) If the loanee has any savings balance (extra savings) after adjusting the outstanding loan, that amount is returned to the successor of the dead loanee.
02.	If the IGA/Project is burnt by fire (like: house, shop, farm, workshop, business institutions etc.)	a) The credit service charge of the taken credit by the affected loanee is exempted 50 percent to 100 percent upon inquiring and depending on the amount of loss. It is noted that, those who have four instalments over-due/unpaid consecutively, won't get this facility.
03.	In case the cows/goats (if IGA included) are dead that are purchased and maintained with the credit money.	
04.	If the IGA/Project is sustaining a loss due to flood/natural calamities.	a) The creditservicechargeof the taken credit by the affected loanee is exempted 50 percent to 100 percent upon inquiring and depending on the amount of loss. If that loanee member is unable to pay the rest outstanding loan amount (including service charge) that is left after adjusting the outstanding loan with the deposited savings of that date, are exempted. It is noted that, those who have four instalments over-due / unpaid consecutively, won't get this facility.
05.	If the IGA/Project is sustaining a loss due to some situations created politically or socially (like: robbery, eviction)	
06.	If the IGA/Project implementer is unable to implement the IGA/Project for having some accident or physical injuries (like: losing hand, leg, eye/being paralysed)	
07.	In case of death of the IGA/Project implementer's husband	The credit service charge of the taken credit by that loanee is exempted 50 percent to 100 percent.
08.	For Absconder Loanee Member (if any loanee member flees away from her/his locality for six months continuously and if her/his regular instalment paying is stopped for three months due to her/his absence)	a. After adjusting the outstanding loan with the deposited savings, the rest outstanding loan of that member are adjusted with the money of insurance fund to make his/her balance nil. b. If any absconder members ever return to the locality, the instalments of that member have to be collected. Collected instalments are accounted as miscellaneous income.
09.	Community Development	A portion of the surplus of premium amount is spent for credit-plus activities in the community in every year.
10.	Returning deposited Insurance Premium Fund	Without the above provisions, any member in lifetime won't get back her/his deposited money as Insurance premium.

3.6 Procedure of Payment of Insurance Claims:

PADAKHEP implements village/cluster based Holistic Microfinance Programme, gives importance to community & community spower structure in its programme implementation. So in meeting up of Insurance claims Padakhep always organise a function/gathering (by the respective field officer/manager) where insurance benefits provided are declared in presence of the other members & community people.

4.0 PERFORMANCE STATISTICS OF PADAKHEP INSURANCE PRODUCT:

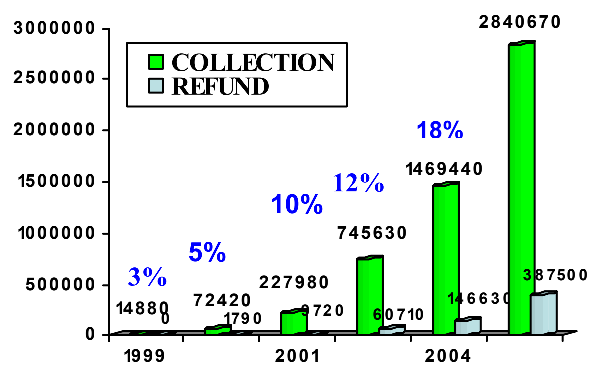
1. Total borrower: 0.13 million
2. Total Insurance borrower: 0.13 million
3. Total loan disbursed: US $ 28 million
4. Total Insurance Premium collected: US $ 2.84 million
5. Total compensation/claims paid: US $ .39 million

Expenditure for Community Development: US $ 0.1 million

INSURANCE STATUS

Amount in Dollars

1999-2005



5.0 IMPACT OF THE INSURANCE PRODUCT:

5.1 Beneficiaries' Level Impact:

Beneficiaries are really satisfied with the facilities provisioned under insurance. It is a minimum cost but a great help to the beneficiaries' family to be freed from the pressure of the credit.

5.2 Community Level Impact:

Community is very positive towards the benefits given under the insurance product. However, a good amount of money is spent for community development purposes from the insurance premium surpluses like, scholarship, furniture / equipments given to schools / colleges / *madrasas* / mosques / *mondirs* / relief for disaster affected people, etc.

5.3 Organisation Level Impact:

Organisation has created a good opportunity for risk management of its portfolio. Through this innovative insurance product PADAKHEP can serve the borrower, borrower's family and the community as well.

6.0 SPECIAL FEATURES OF THE PADAKHEP MICRO INSURANCE PRODUCT:

- It is as simple as possible.
- It is introduced with non-profit motive.
- It is an innovation of Padakhep Microfinance Programme (MFP).
- It is borrower's friendly product.
- Its coverage is introduced from the experience of the microfinance practice.
- The management of insurance product has no separate costs as it is embedded with the MFP.
- A portion of the surplus of the premium is spent for credit-plus activities of PADAKHEP.

7.0 LEARNING ON MI PRODUCT:

Over the time we have learnt many things through MI product implementation.

1. This is a very useful product for the borrowers', borrowers' family, community & the organisation as well.
2. Management of such product is little difficult and there are risks also. Operations of such product with a limited capacity are not viable. It is a viable product for the medium sized Microfinance Institution (MFI) but not for the smaller MFI.
3. The borrowers now have the knowledge on the insurance and accepted it.
4. Commercial insurance is not affordable to the poor borrower

5. Reinsurance with available traditional insurance company is not affordable.
6. It has given a good opportunity to PADAKHEP to be acceptable to the community.

8.0 FUTURE PLAN OF PADAKHEP ON MI PRODUCT:

This product has given a wonderful opportunity to manage the risks of organisation's portfolio as well to best serve the borrowers. PADAKHEP is seriously planning to introduce,

- Limited Health Insurance
- Limited Crop Insurance & also
- Limited Disaster Insurance

9.0 PROBLEMS/CONSTRAINTS FACED/FACING IN MI PRODUCT:

Initially many of the borrowers have their reservation on cost of the insurance product. However, over the time our skilled field managers able to motivate the borrowers about its advantages. There is not much dropout of members due to insurance product.

10.0 CONCLUSION & RECOMMENDATION:

PADAKHEP innovated this insurance product and introduced/introducing new coverage adopting its microfinance Programme Leanings. Microcredit has given poor people a good access to the credit. For sustainable microfinance Practice it is also essential to practice of non-formal micro insurance, which really help poor borrowers to cope up with the risks and vulnerabilities/disasters as well it tremendously help the practitioner organisation to free its portfolio from risks.

It is well accepted by the borrowers and we should carefully practice it side by side of mainstream microfinance practice. We should promote its replications among the microfinance Institutions (MFIs).

INITIATING MICROFINANCE RATING IN BANGLADESH BY

Atiqun Nabi,
Executive Director,
INAFI Asia and Bangladesh.

Introduction

BACKGROUND OF MICROFINANCE RATING

Microfinance rating has become a powerful tool for external verification of the performance of the MFIs all over the world. It is very much true in the case of Bangladesh too, the birthplace of microfinance. While the instrument was developed in the mid-nineties in Latin America, basically to rate financial institution in particular, pioneered by Micro Rate, found its way to Africa in the beginning of the 21st century and is now rapidly gaining inroads in Asian countries.

Originally the instrument was developed to help MFIs accessing microfinance capital markets. This was of particularly interest for the Latin American sector as financial margins allowed for higher costs of capital in an environment where domestic capital intake through public savings and deposits became blocked as regulatory supervisors did allow for that, unless the financial institution would have achieved formal banking status. Capital providers needed more than past financial performance data to arrive at investment decisions. They needed a professional external opinion on the microfinance institution at large, covering governance, management, systems, risk controls, business concepts and other key performance issues to get a clear picture of the institution requesting debt finance. Moreover, they needed to review annual statements that were composed in similar ways and were cleared from hidden and overt subsidies.

In Africa the microfinance setting was quite different. Many MFIs still maintained funding relationships with donor agencies and those in general did not use rating reports to base their grant-making decisions on. But as MFIs grew their portfolios and brought self-sufficiency within reach, also the African microfinance sector gradually developed a need for rating reports. Reaching self-sufficiency often implies that donor agencies phase out their grant support, and from that point onwards also African MFIs are encouraged to access microfinance capital markets domestically and internationally. Presently both the African and Latin American markets have adopted the rating instrument as quite a common tool for external performance verification and both markets are well serviced by a range of professional rating agencies.

In Asia, especially, in South Asia, events took a slightly different turn. Asian MFIs rarely tapped international capital markets due to the availability of low-cost capital domestically: savings, deposits and discounted government capital. Even so, the rating concept was introduced but in a slightly different. Rating in many cases became synonymous with appraisal studies to assess eligibility to providers of such discounted government facilities. This, however, is not what conventionally is considered a genuine rating exercise. Such exercises where also conducted in a small range of Asian countries, but hardly to the extent that became the norm in Latin America and, as a work in progress, in Africa. As a result the microfinance rating market in South Asia, though growing, is still in a somewhat embryonic phase in view of the size of the sector at large.

It must be made clear that rating is more than just an external review or qualitative assessment. It is professionally carried out by an independent and internationally recognized agency that makes use of both quantitative and qualitative analysis to arrive at a score that is credible, standardized within the sector, and allows for comparison among MFIs.

RATING INSTRUMENTS

There are a variety of rating instruments that have recently been developed for the microfinance sector. They all differ slightly in chosen indicators, but very broadly measure financial and operational stability, and analyse the risk faced by an organisation. A rating tool generally looks at portfolio management, microfinance operations, soundness of the MIS, liquidity management, and governance and management while taking into account the internal and external environment of the rated MFI, and ranking them against accepted industry standards. Letter grades are awarded for each indicator, and the organisation is given an overall score that is available to donors, potential funding agencies, and other practitioners. A final report detailing weaknesses and strengths is also shared with the rated MFI. A number of methodologies and rating companies are currently available to MFIs, such as PlaNet's GIRAFFE, Accion International's CAMEL, the WCCU, Micro-rate, and MCRIL. Some of these methodologies do not adequately incorporate social impact into the scoring, and none of the companies are based in Bangladesh.

SOCIAL AND EMPOWERMENT ASPECTS IN RATING

Increasingly, it is being recognized that the social and empowerment aspect of microfinance must also be evaluated and linked with entire rating methodology. Rating agencies for microfinance are beginning to realize the incompleteness of indicators that do not consider the social mission of most MFIs, and have begun incorporating them into their rating methodology. Often this involves what can be called a social audit. It considers institutional commitment to a social mission and to implementing social development programmes. This is important information to know and can allow a rater to evaluate how committed an MFI is to poverty alleviation. However, the social audit of an institution does not provide convincing information of actual impact on client social and financial well-being. From the perspective of socially conscious donors and investors, this omission could affect funding decisions. And from the perspective of an MFI itself, a lack of understanding of programme impact on clients prevents it from developing appropriate products or discovering how to improve its services.

INAFI'S REASONS FOR BEING WITH RATING INITIATIVE

Since, the first ever Micro microfinance Summit of 1997 in Washington D.C., the micro finance sector has experienced tremendous growth in the number of service providers, clients served, loan portfolio size and savings and other private funds mobilized. The growth has its both favourable and adverse effects. There is now greater potential for increased access to micro finance services for more of the world's poor thus enabling them to improve their own situation. The tremendous growth in supply and demand provides an opportunity as well as drawback for micro finance service providers. The growth has generated increased competition for funds as well clients; compelling MFIs to continually improve their products and perform and effectively to remain competitive.

As a network of alternative micro finance practitioners, we at INAFI, are concerned with the adverse affects of unplanned and rapid growth that bring inefficiencies to our members' and the sector's ability to provide continues and effective micro finance services to the poor. At INAFI, we have long recognized the need to continually improve the quality of our member's institutional and financial performance, and our product services and hence we are investing in various capacity building activities for our members over the long term; rating being one of them

It is undeniable that in time all NGO/ MFIs will have to undergo some kind of rigorous evaluation, or rating with a view to partly to meet the requirements under a regulation/supervision act, and perhaps to be considered for financing. INAFI is entrusted with promoting standards and indicators to measure performance, and initiate transparency and accountability within the network and the industry as a whole. Therefore, microfinance rating has been included as an essential component of the capacity building initiatives INAFI. Rating is an analytical tool that measures the micro finance institution's (MFIs) asset quality, management, internal controls, earnings and liquidity. It also looks into portfolio management, microfinance operations, soundness of the management information system (MIS), liquidity management, and governance and management while taking into account the internal and external environment of the rated MFI. It identifies the operational and financial risks faced by the MFIs. The MFIs institutional and financial performance is rated vis-à-vis accepted industry standards. This tools/ instrument will provide an opportunity to identify the weakness and strength of institution to be rated that lead to improve transparency, accountability and efficiency. INAFI, however, cautions that microfinance rating should be de-linked from funding – that it should not be used as the basis for approval or withdrawal of funding by donors; but, should be taken as a mechanism for capacity building, a guidepost for the MFI to improve the quality of its performance. It must be demand driven – the rating must be desired by the MFI itself as a commitment at self-improvement and not an outside imposition.

In addition to this first priority for funding, rating offers a number of benefits from the perspective of both MFIs and a network like INAFI:

- Capacity building of MFIs – rating exercises professionally identify the strengths and weaknesses of an organisation, thereby leading to self-evaluation and better decision-making on the part of management, and improved quality and efficiency of MFIs.

- Providing a roadmap – rating provides MFIs with an understanding of the current status of an organisation, where it needs to go in the future, and how it should get there.

- Fostering healthy competition – rating distinguishes between those MFIs who are performing well and meeting industry standards, and those that are lagging behind. This motivates organisations to improve vis-à-vis the competition, and promotes an overall rising of standards.

- Promoting accountability and transparency – rating requires outside scrutiny of business practices and management structures, and sector-wide communication of results. This creates a culture of accountability within an MFI, and helps networks like INAFI to monitor performance.

Microfinance Rating in Bangladesh

In Bangladesh, it took another turn. As the grant money for the NGOs were available, and most MFIs in Bangladesh set off their journey as NGOs, they heavily build their "Microfinance Programmes" on the donors' grants, and their beneficiaries' savings. Discounted government capital is also made available in Bangladesh, the PKSF fund. Moreover, still today, many MFIs in Bangladesh have "subsidized" donor funding for microfinance. Microfinance rating in Bangladesh is worse than the scenario that prevails in Asia, and even in South Asia. The microfinance market gets bigger over here but not the international standards of financial operations. In many cases Microfinance rating becomes synonymous with assessment or appraisal studies to assess eligibility to providers of discounted government funds, or evaluations of an MFI/NGO before a donor agency makes a grant to such an organisation. This, however, is not what conventionally is considered a genuine or international standard rating exercise. Such exercises where also conducted in a small range, but hardly to the extent that became the norm either.

Microfinance Institutions and Microfinance NGOs including INAFI Bangladesh member organisations have been expressing an interest in microfinance rating as a means for gaining access for commercial and donor funding. Some have already had positive rating experiences, and recognize the needs for follow up, Many small and medium MFIs could exponentially expand their client base and improve their services with some additional capital and can boast financially sound portfolio management, good governance structures, and a pro-poor focus, but are unable to come up with the collateral required by banks. Rating becomes the only option available for them. From a strategic long-term point of view, rating may also make the Bangladesh microfinance sector an attractive destination for socially responsible investment funds. The microfinance programme in Bangladesh is widely known to the rest of the world for its firm commitment to alleviating poverty, deepening outreach towards poorer section, and social development performance. Many MFIs in Bangladesh are implementing programmes in education, health, and gender, which are considered by these organisations as vital complements to the microfinance component of their poverty alleviation strategy. These non-financial components cannot be discounted from what is supposed to be a comprehensive analysis of an organisation's performance and viability.

For this reason, INAFI Bangladesh is also researching affordable methods for social impact assessment and monitoring that can be implemented by MFIs themselves and incorporated into MIS systems. The inter-lapping concerns of rating, adequate MIS, and social impact assessment represent an opportunity for member organisations to enhance their performance, access additional funding, and satisfy the double bottom line of sustainability and outreach.

RATIONALE FOR THE MICROFINANCE RATING IN BANGLADESH

INAFI Bangladesh is implementing plans for the establishment of an independent rating company in Dhaka, Bangladesh. Options for the initiation of a rating exercise among MFIs in Bangladesh that consider these issues and opportunities are discussed below

In this backdrop, INAFI Bangladesh now takes the lead in giving a powerful boost to the development of a genuine microfinance rating practice in Bangladesh. There are three key rationales behind. First, traditional capital intake through savings, deposits and apex funding cannot possibly meet the ever-growing demand for more capital. In fact, many MFIs face stagnation problems in their growth strategies due to lack of capital to finance expansion of loan portfolios. So they have started approaching alternative capital markets. A first potential market is offered by the domestic formal banking sector. There appears to be liquidity in the banking sector that can be well tapped by MFIs and some have started borrowing from banks indeed. However, as other institutional capital providers, also banks have a need for professional external verification of the overall performance of MFIs, and rather than developing individual appraisal formats, the banking sector is in favour of a standardized rating methodology that follows international conventions. At the same time established microfinance rating agencies have developed a healthy appetite to extend their services to the microfinance sector. Next, and beyond the horizon of the domestic banking sector, larger MFIs in the country have started eyeing international capital providers, particularly the many specialized microfinance investment funds. As the pricing of their capital may still be prohibitive for many MFIs, especially in view of the currency exchange risk, and as repatriation of interest still is an issue of discussion with monetary authorities, access to these funds on the short term will remain limited. But if these barriers would be removed and capital from these funds would become more easily available, again MFIs will be required to submit rating reports composed and issued by reputable agencies.

Second, MFIs that have undergone rating exercise in Bangladesh often take great advantage of the analyses provided by the rating agencies. More often than not such exercises point to weaknesses or shortcomings in systems and strategies that may have escaped full attention from the MFI's management or governing body. For them, then, rating reports and accompanying management letters provide valuable clues for smaller and larger improvements in operations, policies and business plans. And it is rewarding as well. So, if improvements are indeed realized by a first rating, the next follow-up rating will result in a higher grade, which will strengthen the MFI's bargaining position in the capital markets. The rating approach of INAFI Bangladesh to MFIs exposes an evaluation of the organisation's management capacity, information system, financial sustainability, social performance, innovation that reflects organisation's future prospect, operational sustainability with its capacity for further improvements, and networking of organisations through developing relationship with different stakeholders. By considering all the performance variables including adding some new variables i.e. social performance, innovation, and networking INAFI Bangladesh can expose its rating methodology different from others.

Third, there is a growing need in Bangladesh for a national system of microfinance benchmarking. Indeed, annually sector-wide results of many MFIs are collected and published, but this database is limited in its use. The data are merely descriptive in nature, in fact only address outreach figures, and not analytical and the provided information is not uniformly verified. They provide us relevant information about the size of the sector, but not about the quality of outstanding portfolios or service deliverers. Institutionalisation of rating will create a reliable benchmarking database.

The Issues

INAFI Bangladesh aims at promoting the general use of microfinance ratings in the country by making a head start. For those three problems areas should be addressed first INAFI Bangladesh to find out the justifiable ingredients that are necessary and to that purpose an integrated and concerted effort needs to be put in place.

Issue number 1. There is a demand issue to be addressed. Incidentally MFIs in the country have undergone rating exercises but the results thereof are not widely spread and certainly do not allow for any meaningful form of benchmarking. But as rated MFIs generally appreciated the exercises very well, a critical mass of demand has gradually been developed that now can be explored.

Issue number 2. As demand becomes manifest, the supply side also becomes interested. During the previous years most supply was offered from abroad, but to build a good rating infrastructure it is imperative that domestic microfinance rating capacity will be developed. So, the domestic analytical approach will be developed too that gives emphasis on microfinance norms, socio-economic condition of the clients, and operational methodology of the local MFIs. Apart from that the local ratings would be capacitate to provide information about the financial, operational and social impacts of the rated organisations, too.

Issue number 3. To bridge demand and supply a certain adjustment to conventional rating methodologies needs to be made in the form of an addition of a critically important performance area: social performance. Microfinance in BANGLADESH is deeply rooted in the development sector and many practitioners' involvement in the industry can be attributed to developmental concerns and motivation. This has some profound consequences. Many MFIs somewhat reluctantly now see themselves pictured as part of the financial landscape of the country. They do not consider themselves bankers and financial sustainability, though needed, is not their prime objective. Their institutions are not so much there to make profit or provide handsome returns to investors, but to provide affordable financial services to large groups of low-income and poor people in effective and efficient ways.

The INAFI Bangladesh's Response to Address the Issues

Addressing the issues, INAFI Bangladesh's approaches are, rating is supposed to look into performance in that area as well. Critical questions for MFIs are not only: do we provide financial services in a sustainable manner, but also: do we service the right people and does involvement in our programmes actually contribute to lifting these clients out of poverty? Also the capacity to look into this social performance area warrants in our view the building of a domestic rating sector.

INAFI Bangladesh was confident that this social performance element can be conveniently incorporated into conventional rating methodologies and that is the key to bringing demand, supply and methodology together in one concerted effort. So, it worked with New

Africa Rating (NAR), Blue Rhinos (The Netherlands), CRISL (Credit Rating Information Service Limited) in collaboration to include the social performance rating in overall rating methodology. In that effort, INAFI Bangladesh was successful, and it had succeeded in developing a microfinance rating methodology including social performance issues incorporated in, and done four pilot rating based on the methodology with the active support of the CRISL. INAFI Bangladesh also launched the methodologies (MF rating methodology by CRISL, and Social Performance Indicator Tools by INAFI Bangladesh) in a workshop held in November 2005 at BRAC Centre Inn.

PARTNERSHIP BUILDING

INAFI Bangladesh has already has a working relationship with a Bangladeshi rating agency called Credit Rating Information and Service Limited of Dhaka, Bangladesh. CRISL is a highly reputed rating agency with a substantial track record in the formal banking and finance sector. It is a joint venture company with multinational rating agencies, namely, Rating Agency Malaysia Bread (RAM), Malaysia and JCR-VIS Microfinance Rating Company Limited, Pakistan, being an affiliate of Japan Credit Rating Ltd, JCR (a CGAP approved microfinance rating agency, as well). CRISL Bangladesh is also a founder member of the Association of Credit Rating Agencies in Asia (ACRAA) sponsored by the Asian Development Bank, is certainly one of the most prominent rating agencies in the Asian market. CRISL Bangladesh has already developed a slightly adjusted rating methodology for Microfinance institutions that has a slot for social performance issues. INAFI Bangladesh and CRISL have already piloted the methodological application of this slot, as well as on the weight of this performance area in the composite overall grade.

OBJECTIVES OF THE MICROFINANCE RATING

- To develop an appropriate microfinance rating methodology for the Bangladeshi MFIs to rate their performance in terms of international standards in collaboration with other partners within the project period.
- Take stock of four Bangladeshi MFIs for pilot microfinance rating to validate and fine tuning the methodology developed within the project period.
- Institutionalising of microfinance rating of the MFIs in Bangladesh by creating a microfinance rating fund and to create a reliable benchmarking database of Microfinance rating, as well.

OUTPUT OF THE MICROFINANCE RATING

- Appropriate microfinance rating methodology for the Bangladeshi MFIs developed.
- Piloting conducted on four Bangladeshi MFI on Microfinance rating using the methodology developed.
- Validation and fine-tuning of the methodology conducted.
- Microfinance rating fund established.
- Microfinance rating of the MFIs in Bangladesh institutionalised.
- Rating in Bangladesh institutionalised to conduct rating 25 MFIs with full course rating, three times within 3 years.
- Reliable benchmarking database of microfinance rating created.

ACTIVITIES

Phase 1

INAFI Bangladesh has engage a team of an international consultant together with a local consultant, and representatives of INAFI Bangladesh as well as a local microfinance rating agency Credit Rating Information and Service Limited of Dhaka, Bangladesh to develop the methodology. CRISL is a highly reputed rating agency with a substantial track record in the formal banking and finance sector. It is a joint venture company with multinational rating agencies, namely, Rating Agency Malaysia Berhad (RAM), Malaysia and JCR-VIS Credit Rating Company Limited, Pakistan, being an affiliate of Japan Credit Rating Ltd, JCR (a CGAP approved microfinance rating agency, as well). CRISIL Bangladesh is also a founder member of the Association of Credit Rating Agencies in Asia (ACRAA) sponsored by the Asian Development Bank, is certainly one of the most prominent rating agencies in the Asian market to develop a methodology of microfinance rating of Bangladeshi MFIs. The same team has done field-testing of the methodology.

Phase 2
Pilot rating has taken place with four selected MFIs in Bangladesh. The first four ratings has been implemented on a pilot base to firmly secure the most viable way of inclusion of social performance rating.

Phase 3
A microfinance rating fund will be created, and preparation of rating 25 MFIs begin after INAFI Bangladesh has completed the pilot rating to institutionalising rating in Bangladesh.

THE PROCESS OF INSTITUTIONALIZING RATING IN BANGLADESH

After the pilot ratings are over, INAFI Bangladesh will now engage 25 of its member MFIs during a three years period to undergo a first rating and two subsequent annual follow up ratings. This will result in 75 rating reports, constituting sufficient critical mass to build a benchmarking system.

During this time period of three years INAFI Bangladesh will appoint a qualified performance assessment staff person to facilitate the first batch of 25 ratings and, later, take up the benchmarking work. Facilitating rating first and foremost refers to executing a professional check on the quality of management information systems and financial documentation. Interested MFIs not meeting minimal standards in this field may not participate in the rating programme until verification of key date by the rating agency is possible.

Credit Rating Information and Service Limited of Dhaka, Bangladesh will perform the first ten full ratings as per the methodology developed, field tested, and piloted on four MFIs. The discretionary offer to CRISL to perform the first batch of ten ratings is to ensure the company an initial revenue stream to allow for the hiring of additional rating staff with profound knowledge of the microfinance sector in the country.

As the rating reports will be co-financed by donated monies, all MFIs to be rated will have to agree on full disclosure of final rating reports on Bangladesh' website as well as on other sides deemed appropriate by INAFI Bangladesh and project sponsors. Side letters or management letters will not be disclosed and remain with the MFIs. CRISL and possible other rating agencies will remain intellectual propriety rights on rating reports but publication rights will be handed over to the individual MFIs, INAFI Bangladesh and other parties at the discretion of INAFI Bangladesh.

INAFI Bangladesh will be responsible for frequent composition and publication of benchmarking reports and for distribution thereof. This will be done initially on an annual basis and, at a later stage, on a six-monthly basis. A microfinance rating fund created, and preparation of rating 25 MFIs begin after the completion of pilot rating to institutionalising rating in Bangladesh.

INSTITUTIONAL SUSTAINABILITY OF SHAKTI'S MICROFINANCE BORROWERS

Humaira Islam, PhD
Founder Executive Director,
Shakti Foundation for Disadvantaged Women

AN OVERVIEW

Shakti Foundation is one of the first organisations in Bangladesh to start activities for reducing urban poverty. The rationale for founding the organisation was based on a study in 1989 commissioned by UNICEF to find out the status of the urban poor in comparison with that of the rural poor. The study showed that in all count of poverty indicators such as income, employment, housing, health, education and sanitary facilities the poor in the rural areas had a comparatively better life than the urban poor. Another reason for starting an organisation for the poor was based on the concern related to the increasing rate of migration from rural to urban areas. Displaced by river erosion, landlessness, faced with unemployment and hunger an increasing number of poor families migrate to the cities in search of livelihood. And it is common knowledge that the brunt of poverty falls more on women than men in these households.

In the last 12 years the organisation has grown very gradually in terms of membership. This was a conscious decision because it was felt that in order to retain the quality of services to members, slow and incremental growth was more important than rapid expansion, at least in the initial learning years of the projects.

OBJECTIVE OF SHAKTI FOUNDATION

The organisation works for the economic and social empowerment of poor and Disadvantaged women. In order to do so 4 projects are being implemented.
These are:

- Urban credit programme
- Business management training
- Health programme
- Gender Programme

PROGRAMME INTERVENTION

Sustainability of the member of the organisation is perceived within a framework in which a woman can think and act independently, and through which actions she can live a life of her own choice. As a first step towards this end, women are offered micro loans. Essentially, micro credit approach gives women a sense of the value of possessing money and commodities which are entirely her own. It teaches her not only to earn but also to spend according to her own desire and choice. She becomes her own financial master.

But, this much-cherished economic strength will be short lived if it is not being protected from self-interest of others, particularly the interest of her male counterpart. As often happens, when business or economic activities remain small, the male in the family tend to ignore it. But, with scale and expansion and higher financial transactions and increased market interactions where income and profit increases substantially, the male in the family steps in, and gradually takes over the business. In order to prevent this from happening, women are offered business management training courses. This programme teaches members simple business plans and accounting as these skills are essential to manage and keep control of larger business by women themselves. The programme is also designed to cut down the role of middleman or intermediaries in business transactions.

The process of members' economic independence is further reinforced through the gender programme. The grogram has been designed to make women conscious of the importance of credit as an important tool for emancipation. The programme gives a clear message to the members: credit is a very important tool for economic empowerment. Use it and you will see the changes in your life as an income earner and decision maker, and change maker. You will be respected in your family, community and society. Misuse it and you will lose the opportunity to get out of poverty and the entire curse that comes with it.

A third activity through which women's economic empowerment is reinforced is through the health programme. Experience show that when disease or illness inflicts a poor household, the family suffers financially. Depending on the severity of the illness the family has to spend, and if the illness is long term or serious, the family may become even impoverished loosing all the financial gains that had been built over the years. And, in such situations it is women who loose out the most. In order to prevent this from happening, the health programme provides members with three services. These are: Awareness on health issues, Primary Treatment, and Health loan. The health loan is interest free and member can pay back the loan at her convenience. In cases where woman dies after taking health loan, her loan is waived.

The consequence of the 4 programmes being offered by the organisation is reflected in women's ability to take decisions on loan, investment, expenditure or family matters. It is also reflected in their increased mobility to market places, participation in organisational, national and international events, and other places of business and personal interest.

DEVELOPMENT OF MEMBER CAPABILITIES:

Peer Trainers

Creation of human resource base at the grassroots level by developing members as leaders, spokesman, and change makers in their own family and community has been adopted as a strategy to ensure sustainable development of members of the organisation. One activity towards that goal is to develop women as trainers to teach their peers about legal issues, gender imbalance, business planning and management, and health issues both preventive and curative.

Intermediaries

Members act as intermediaries between organisation staff and other members through meetings, discussions and by raising issues and solving problems. In order to do this in a structured manner, programme specific committees have been set up. Members of the committees meet regularly to discuss fixed agenda, and they also meet periodically with field staff and senior management to discuss matters of common concern. Membership of the committee rotate at an interval period and as a result new group of leaders are created on regular basis.

Event Managers

Every year a number of workshops are arranged on a number of issues where members participate in large and small groups. These events are organized and managed by members and is very important as it builds their organizing, management, and interactive skills

CONCLUSION

The participation of members in the implementation of the organisation's projects as recipients and as action takers is one of the key elements for creating conditions and facilitating a process for attaining the organisation's goal and the mission objective of Shakti Foundation. It is hoped that one day these poor disadvantaged women will be have significantly improved quality of life which will have a positive reflection on the mainstream human development index of the country.

ROLE OF MICRO CREDIT TO REDUCE TRAFFICKING IN WOMEN AND CHILDREN AND PROMOTE SAFE MIGRATION

Md. Emranul Huq Chowdhury,

Director, UDDIPAN

UDDIPAN is a national level development organisations working in the field of development since 1984 with a variety of development programmes to bring about a positive change in the life of the poor, vulnerable, disadvantage rural community around the country. All the development programmes initiated by UDDIPAN are integrated to each other, which in fact have a remarkable impact in the life of the poor mass. Out of all the programmes being implemented in UDDIPAN 'Micro Credit and Savings' is one of the major programmes, which is tagged to other programmes with an integrated approach.

Bangladesh is one of the poorest countries having around fourteen crore of people out of which almost fifty percent are children and about fifty percent are women out of total population. Considering the status in the society, women and children are behind by miles than that of men. Poor people particularly women from poorer class have little access and to some extent no access to economic opportunities, support services, employment, credit support, land and asset ownership and normally they enjoy a little of their rights of inheritance. In all, in the rural society, and in some part of urban society, women and children are mostly classified as 'dependent' to her or his family; and if the woman is married, on her husband. They are not considered as a unique individual to be a partner or co-worker in the process of production. As such, they are identified as the liabilities, not assets and therefore, tend to look down upon and maltreatment.

The free flow of goods, technology, capital and services across the borders on one hand and restricted labour mobility on the other is throwing challenges for the governments to manage migration. Migration management relates to developing clear and comprehensive policies, laws, administrative arrangements to ensure that population movement occurs in a humane and orderly way, to the mutual benefit of the migrants, societies and governments. As migration and trafficking are distinct but interrelated phenomenon, unregulated migration especially trafficking in persons can have negative social, financial political costs for the individual, society and government. Migration is a development enhancing process and trafficking is a development re-trading process. Most of the migrants are unaware of the practical, legal, social and economic consequences involved in the moving to other places/countries. This lack of information and awareness put migrants at high risk and undermines orderly migration.

According to the definition of ATSEC, *'Human Trafficking is Transportation of any children, women or men inside or outside the country by means of allurement or deception or force for engaging in harmful situation or for selling.'* It is to be noted that trafficking is the third largest illegal trade in the present day world after drugs and arms. An estimated one to two million young women is being trafficked per year for the purpose of forced labour, domestic servitude and forced into sex trade etc.

As options for better livelihood migration has proved its worth in the present day world. But the question of safe migration has emerged vigorously along with ability to migrate in terms of financial ability and other opportunities. Bangladeshi people have a very good demand in the world market. UDDIPAN observes that there is good number of workers available with physical fitness; experience, sincerity, honesty and hard working and these qualities have enabled them to be demanding in the world market. The people of the country who are supposed to avail the opportunity are not able to avail this as they are poverty stricken, do not have sufficient money required to be invested for going abroad.

Every individual in the society dreams to be living in a sound social and financial environment where the existence of poverty and social injustice will not be visualized in their daily life. But the poor cannot afford what they dream. They cannot match with the increasing economic change occurs in the society in such a free market economy. As they are in a stake due to their poverty hovering all around them, they don't have other alternatives but to fall as an easy prey in the temptation of trafficking and unsafe migration.

Migration is considered as economic and political rights of people. Thousands of people of our country are migrating to other countries in search of job for better livelihood, higher education and other purposes. Although managing safe migration is a critical area for the governments but promotion of safe migration ought to be one of the major tasks for the government's practice.

Safe migration in order to enjoy some descent livelihood is always encouraged and welcomed and it is a right of every human being. People particularly the young ones want to be a migrant to other countries in order to avail the opportunity of better living. But because of poverty many can neither manage capital to fly overseas nor live better inside the homeland. The traffickers target women and children as the unprotected group, which makes them vulnerable to trafficking and becomes the victims of such heinous crime. Needless to mention that Bangladesh is a human supplying country for trafficking.

UDDIPAN through micro credit consciously tries to develop the financial capacity of this category of households at rural level. UDDIPAN also has observed that micro credit has strong positive influence on migration and trafficking. Micro credit creates scopes of opportunities to those poverty stricken communities to involve themselves with IGAs, which enable them to be self-reliant. By getting micro credit support from various agencies poor people are becoming self-dependent. After meeting up their daily necessities and reimbursing the credit they have been able to save a portion of their profit. Micro credit ultimately playing a vital role to bring a remarkable change in their life enables them to think freely and take decisions to their own life. UDDIPAN experience shows that some families have used their savings and assets build through micro credit operation for safe migration of their young male members of their family. As they become some assets holders and cash owners they can think on the options and acquire the position not to be prey to unsafe migration and trafficking. The outcome with their involvement in micro credit programme is their financial prosperity and economic emancipation in fact makes them confident to ignore the temptation of unsafe migration and trafficking. The targeted poor villagers have been saving from income of micro credit operation opens their eyes to be diversified and involved in other options of income generation and investing for safe migration is one of them for many. UDDIPAN helps these groups of people to be linked with Manpower Promotion Bureau at the district level and also through organisations like IOM to ensure safe migration.

As members are involved in groups so UDDIPAN and other NGOs involved in the process are in a position to build awareness against unsafe migration and trafficking. UDDIPAN has been providing information and awareness on unsafe migration and trafficking so that the people could be mobilized against such horrible sector and do not become the victim of trafficking. Even though, if any one comes backs as survivors from their horrible life caused by unsafe migration and trafficking, they are being rehabilitated and reintegrated by UDDIPAN micro credit programme. Many other NGOs are also involved in reintegration of returnees of trafficking through micro credit. Moreover, micro credit helps to stop internal trafficking occurs inside the country through strengthening their economic base at the village level.

By involving the poor rural and urban women in the process of income generation and self employment through micro credit, their economic status are changed, their self confidence are built up, their self dependency is ought to be increased by which their unsafe migration is possible to stop. Above all, trafficking in women and children will be reduced distinctively through a strong micro credit programme if the disadvantaged groups are labelled with. Like others UDDIPAN micro credit operation is being implemented through women. Women are contributing in the development of the family and society as a whole. They are playing the role of the development leader for the family and society. Micro credit made this happen. This is why these poor women folk is required to be tagged with 'Micro Credit' programme and sensitisation programmes against social evils including trafficking and unsafe migration should go side by side.

UDDIPAN strongly believes that micro credit has the capacity to fight against unsafe migration and trafficking, on the other hand can promote safe migration for better livelihood and women are being able to play vital role in this regard.

about us

INAFI

The International Network of Alternative Financial Institutions (INAFI) is an International network of Practitioners' Institutions (NGOs and MFIs) dedicated to human, social, and economic development through the provision of financial services for low-income people by creating effective and efficient alternative financial institutions through capacity building, knowledge based research, thematic seminar and Conference, exposure visit and training. INAFI is working in three regions: Africa, Latin America and Asia. At present more than 115 NGOs/MFIs as its members operating in 38 countries in three continents. INAFI Asia is a network of fifty-four NGO/ MFI practitioners located in Dhaka Bangladesh. Country chapter offices exist in Bangladesh, India, Nepal, and Philippines.

INAFI Bangladesh

INAFI Bangladesh Foundation, the national arm of the INAFI Asia network, shares the same philosophy as the international network with a focus on advancing progress of the local microfinance sector. Activities in Bangladesh encompass capacity building of the microfinance NGOs/MFIs through tailor-made training, thematic conferences, seminars, conference, credit rating and self-regulations. It also undertakes knowledge based research and product development through continuous Research and Development (R&D) initiatives with a particular focus on product innovations and best practices. It also campaigns and lobbies with concerned stakeholders on certain specific issues that emerged as strategic issues and concerns for the sector. Presently INAFI Bangladesh has fifteen Member Organisations of diversified Microfinance Practitioners.

Microfinance: A Proven Strategy for Poverty Alleviation