**DRAFT – DO NOT QUOTE WITHOUT PERMISSION**

# Micro Credit in Poverty Eradication and Achievement of MDGs: Bangladesh Experience

by

Dr. Mahbubur Rahman
Project Director, Participatory Rural Development Project
Bangladesh Rural Development Board, Dhaka, Bangladesh

July, 2005

Paper for Expert Group Meeting on "The First United Nations Decade for the Eradication of Poverty (1997-2006): Progress and the Road Ahead" organized by the Division for Social Policy and Development, Department of Economic and Social Affairs, United Nations in collaboration with the Economic and Social Commission for Asia and the Pacific, 6-7 July 2005, Thailand, Bangkok

## Introduction

Originating from Bangladesh, micro credit by now has evolved as a very effective instrument of poverty eradication, hitherto helped much in the achievement of MDGs and improvement of the quality of life of the rural poor throughout the world.

The word ‘credit’ comes from Latin word ‘credo’ meaning ‘I believe’ or ‘to trust’. Hence, ‘credit’ entails some one, the lender, to believe or trust some one, the borrower, with funds to be used by the borrower for his/her purposes (i.e. business, consumption, etc) to be repaid to the lender with interest at a later stage on agreed terms and conditions. With the advent of institutional credit and flourishing micro credit originating from Bangladesh as mentioned above, essentially, credit may be viewed as a ‘power concept’ or device of providing ‘monetary ability’/ ‘economic power’ by an institutional source to the poor disadvantaged persons on agreed terms and conditions of borrowing and lending benefiting both the borrower and the lender aimed at eradication of poverty and improving the quality of life of the poor borrower.

## Bangladesh context

Geographically, Bangladesh is a flat, fertile alluvial soil of deltaic riverine Bengal Basin located in the funnel to the north of Bay of Bengal. Four major rivers of the world (The Ganges, Meghna, Jamuna & Brahmaputra) crisscross it with hundreds of tributaries making the country prone to annual flood and other natural disaster like frequent cyclone and tidal-bore, etc. Administratively, the country has a parliamentary form of government headed by the Prime Minister, presently Hon’ble Begum Khaleda Zia. The President is the constitutional head of the state. The country enjoys a very high range of homogeneity in many respects particularly language, religion and culture. In decentralized governance the country has six divisions, sixty-four *zilas* (districts) and four hundred seventy two *upazilas* (sub-districts) in prominence.

Bangladesh with a land area of 1,43,570 sp. km. and a population of 137 million, is the world’s tenth and Asia’s sixth most populous country. The density of population is 928 persons per sq.km. and the population growth rate is 1.48 per cent per annum (BBS, 2001). A large portion of the population (77 per cent) lives in rural areas. Agriculture being main occupation employs 63 per cent of the labour force and contributes directly about 26 per cent of the GDP (BBS, 2001). Other major contributions are manufacturing (15 per cent), wholesale and retail trade (13 per cent) and transport (9 per cent). According to the recent estimate, total cultivated area is 7.195 million hectares and per capita cultivated area is 0.06 hectares. The percentage of irrigated area to cultivated areas is 48 per cent.

The country enjoys a very high degree of homogeneity in many respects e.g. language religion and culture. Muslims are the majority of the population (around 87 per cent). The state language is Bangla and Islam is the state religion. The literacy rate is 64 per cent and life expectancy at birth is 61 years. Per capita income has increased to $470 during the last decade. Still 44 per cent of the rural population live below the poverty line and 24 per cent are hardcore poor. The extent of traditional agriculture is still dominant. Major agricultural products are paddy, wheat, jute, tea, sugarcane and tobacco. Major export items are ready-made garments, knitwear, frozen food, jute products and leather. The technology is changing though it is constrained by low investment and small and medium holding. The country is gone through a process of structural adjustment, liberalization and deregulation. The private sector and Community Based Organizations (CBOs) are more active now in development activities.

Bangladeshi lives in its rural areas – distinctly 87 thousands villages having about 18 million households out of total 25 million households of the country. About the villages of the country, Sir Charles Metcalf commented in his report of the Select Committee of the House of Commons in 1832, (volume VIII) “that the village communities are little republics having nearly everything they want within themselves, and almost independent of any foreign relation. They seem to last where nothing else last. Dynasty after dynasty tumbles down; revolution succeeds revolution but the village community remains the same in all ages." Since its birth after bloody war of liberation in late1971 Bangladesh has been beset with stagnant economy with reinforcing vicious circle of poverty. It is the irony of fate that historically Bangladesh was not so poor. It had glory, wealth, name and fame of prosperity throughout the world before the British colonial occupation. For a long time it was the then wealth and resources that attracted foreigners from all parts of the world, many of whom fought each other plundering wealth and resources of the country.

**Achievement of Millennium Development Goals and targets**

Around 40 per cent of the population of Bangladesh lives below the poverty line. This amounts to 63 million people engaged in a daily, never ending struggle to meet their basic subsistence needs. For half of these 63 million people, life is even more difficult. They live in extreme poverty – often without land or a home-stead, without a source of regular income and in households that are disadvantaged by being headed by a female or that have disabled or ill members (World Bank 2002). The story does not end here. For one-fifth of the population – approximately another 25 million of Bangladesh's people – poverty may be just around the corner. Known as "tomorrow's poor" their tenuous grip on a decent livelihood is threatened by shocks and stresses which they are unable to manage; the illness of a family bread earner, the loss of land due to erosion, or an increase in food prices can be enough to push families below the poverty line.

Under the situation, the vision of Bangladesh poverty reduction strategy emphasized that all routes will be utilized for poverty reduction so as to achieve the MDGs by the year 2015 and to attain the delineated targets such as;

- Remove the ugly faces of poverty by eradicating hunger, chronic food insecurity and extreme destitution,
- Reduce the number of people living below poverty line by 50 per cent,
- Attain universal primary education for all girls and boys of primary school age,
- Eliminate gender disparity in primary and secondary education,
- Reduce infant and under five mortality rates by 65 per cent and eliminate gender disparity in child mortality,
- Reduce the proportion of malnourished children under five by 50 per cent and eliminate gender disparity in child malnutrition,
- Reduce maternal mortality by 75 per cent, and
- Ensure availability of reproductive health services to all women.

**Poverty eradication progress during the last decade**

Despite poor initial conditions and its extremely high vulnerability to natural disasters, Bangladesh's achievements in macro-economic management and social development have been impressive. During the 1990's economic growth averaged nearly 5 per cent with fiscal and current account imbalances contained at manageable levels, low inflation, and low public debt. National poverty fell from 59 per cent to 50 per cent, infant mortality was halved, and life expectancy increased from 56 to 65 years. In the mid-2000's the average economic growth has exceeded 5 per cent and poverty incidence further declined. The first time in the last two decades, the GDP growth rate exceeded 6 per cent in FY 2004. The vast majority of children attend primary schools, and gender parity has been reduced in primary and secondary education enrollment. Some of the selected development indicators are given below:

| Selected indicators | 1970 | 1980 | 1990 | 2004 |
|---|---|---|---|---|
| Poverty incidence per cent | 92 | 59 | 49.8 | 41.4 |
| GDP $billion | 10 | 21.3 | 47.3 | 56.5 |
| GDP gross per cent | -- | 3.5 | 4.8 | 6.3 |
| Population million | 85 | 100 | 120 | 130 |
| GDP per capita $ | 118 | 213 | 390 | 470 |

It may be mention that in 1970 the county had 75 million people with a substantial food deficit. Since then the population became nearly doubled but Bangladesh is close to self-sufficiency in food

**Micro Credit experience and lessons in Bangladesh**

Bangladesh, a country that was once internationally identified and derided as 'bottomless basket' is now known as the 'motherland of micro credit' or 'university of micro credit'. Micro finance sector in Bangladesh is relatively advanced in the world and has gone to earn global fame. Here, micro finance / micro credit may be defined as "a small loan size with collateral free, short processing time, reasonable delivery cost, easy installment repayment to the advantage of the loanee, disadvantaged target members preferably distressed woman, supervised institutional structure, culture of sympathy and compassion, etc".

Bangladesh government has always been supportive of micro credit programs/projects in both GO and NGO sectors. As many as 14 ministries and 26 department/agencies and hundreds of NGOs (15,000 registered with government's NGO Bureau) and handful of financial institutions serve more than 12.5 million clients across the country. At present estimated effective target households for micro credit are about 15 million (2,100 K calories). The hard-core poor (1,800 K calories) constitutes about 25 per cent of the total households. But there is a sub-set of the hard-core poor called the ultra hard-core poor or destitute that constitute approximately the bottom 10 per cent of the population i.e., around 3 million households who have been excluded from micro credit programs for various reasons. Total membership and borrowers under various organization are about 13 million and 12.5 million respectively. But by excluding 15 per cent overlapping the actual membership of borrowers stand about 9 million households.

The traditional image of the peasant farmer has long disappeared from much of rural Bangladesh. The reality is that rural households are likely to be involved in non-agricultural livelihoods as they are in farming and increasingly, they derive incomes from multiple sources. The greatest expansion has been in the services sector. The number of small shops in villages has increased substantially, as have tailoring and other craft enterprises, *rickshaw* pulling and petty trading in villages and local *bazars* seeing the growth of rural urban centres, the growth of rural industries and the rural transport and services sectors. People wishing to take advantage of these new livelihood opportunities drawing heavily on a range of assets (such as human, social and financial assets), are fast becoming as important as natural assets (such as access to land and water) once were. Access to these assets enhances the capacity of households to shift from one livelihood to another or to combine livelihood strategies. For example in Lalmai village, only about 16 per cent of households depend entirely on agriculture. Ten percent of households rely on agriculture and service, 8 per cent on agriculture and business, and 66 per cent on share-cropping wage labour, shopkeeping and other activities. Candidly speaking, micro credit has eliminated disasterous mass starvation and threat of famine syndrome throughout the country by facilitating small farm producers and their allies off farm earnings.

Advocates for micro-credit place great emphasis on lending to women. Total number of women micro credit borrowers has reached 12 million with a total micro credit debt of $1.2 billion (2.4 per cent of

GDP) and loan repayment rate prevails above 97 per cent. Micro credit provided by government departments /agencies /NGOs /MFI institutions has given many benefits for village women, by increasing their mobility, income generation, decision-making in the family and community. Woman use loans to purchase:

- Consumer goods, including food, radio-cassettes, televisions, etc.,
- Medical care,
- Materials and labour for building tube-wells, toilets and house improvements,
- Education for sons and daughters,
- Supplies for their personal income-generating activities, including poultry or animals, materials for jute work or other handcrafts,
- Materials for income generation activities for their menfolk, including purchases of land, animals, rickshaws or boats, or setting up tea-stalls or other small trading enterprises, and
- Capital to loan to other villagers at a profit.

**Major institutions to mention dealing with micro Credit**

Major institutions to mention dealing with micro credit are:

1. Bangladesh Rural Development Board (BRDB), the premier government organization with a plethora of micro credit programs/project geared towards poverty eradication and improving quality life of the rural poor,
2. Grameen Bank, the popular household word in the development arena in the country and overseas as the pioneer of the idea that the poor are bankable,
3. Palli Karma Shahayak Foundation (PKSF), a micro credit whole-sale fund, an assisting means to effectively and efficiently provide funding to micro credit partner organizations both government and non-government sectors, and
4. Bangladesh Rural Advancement Committee (BRAC), the world's largest NGO in micro credit operation, among many others.

Impact of BRDB micro credit interventions may be seen in Appendix 1.

**Major issues out of experience and lessons**

1. Micro credit program/project catering period for the poor

Normally a micro credit program/project is designed for 5 years or less. Sometimes it is extended for further phases, but beforehand, creates uncertainty, ambiguity and fear regarding continuity of regular loan service and employment among staff concerned causing much hamper to the sustenance of livelihood and quality life of the targeted poor. If the program/project period is not extended the beneficiaries are left out and the created benefit ultimately lost. The poor needs to be served for a considerable period of time to overcome income poverty as well as human poverty. Even after the graduation, on his/her desire and ability of repayment for the bigger loan services are to be provided so that he/she can create wage employment in the society for other persons. Hence, a micro credit program/project should be designed with a vision period of 20-25 years for real micro credit articulated aims-objectives bound business.

2. Interest rate and financial sustainability of MFIs vs. beneficiaries

There lies different interest rate among the institutional micro credit providers and interest rate is calculated differently i.e., simple, compound, flat, declined, etc. Interest rate of all the institutional micro credit providers should be uniform and calculation should be made in a unified harmonious manner.

It is argued that different institutions may charge different interest rates based on their comparative, efficient and advantageous services to the borrowers. It is the borrower who selects credit sources on his/her choice. This is a very idealistic high-flown talk and not matched with socio-economic situation and perception of the rural poor against the so- called quality of services, provisions and conditions of different institutional micro credit providers in Bangladesh, for example. Hence, a regulatory authority in the country with government representative in chair comprising members from the banking sector, MFIs, civil societies, NGOs and other concerned should fix up common interest rate of micro credit with lending and borrowing guidelines benefiting both the lender and borrower reciprocally to be followed by all concerned.

Much talks and arguments prevail on the financial sustainability of micro credit providing MFIs/NGOs/government department/agencies vs. grass roots targeted beneficiary. MFIs/NGOs/government department/agencies should attain financial viability/sustainability not by raising interest rate at the cost of poor beneficiary but by minimizing overhead, unscrupulous and various unseen costs and establishing and efficient cost-effective management.

3. Coverage of hard-core ultra poor and tomorrow's poor

Throughout the developing world, the significant fact is that even today after establishment of alternative sources of institutional credit for the poor in rural areas, non institutional sources like traditional money lenders (*mohajans*), rich land owners and traders, white color service holders, relatives, etc. fulfill most of the credit needs accounting about 90 per cent in many places. Generally non institutional credit sources charge very high interest rate which takes away most of the poor borrowers income leaving him/her in an adverse pecuniary condition under vicious circle of poverty trap benefiting the usury lenders alone.

Evidences, various documents and field visits show that micro credit has helped poor people to overcome poverty but difficult situation exists to cover the hard-core/ ultra/absolute poor persons of the society and tomorrow's poor happened by natural as well as man-made disasters like river-erosion, cyclone, flood, tidal bore, tsunami, earthquake, war, riot, and unrest etc. Mechanism needs to be evolved to serve those hard-core and tomorrow's poor people by micro credit provisions to ease there sorrows and provide comfortable life.

**Conclusion**

Bangladesh Poverty Reduction Strategy Paper (PRSP) vision constitutes the following seven point strategic agenda for the goal of accelerated poverty reduction to achieve MDGs:

1. Employment;
2. Nutrition;
3. Maternal Health;
4. Quality Education (at primary, secondary and vocational levels);
5. Sanitation and Safe Water;
6. Criminal Justice;
7. Local Governance.

The paradigm of rural development in Bangladesh is being shifting from one stage to another as per demand of the time. The focus is increasingly shifting from one-dimensional instruments to those that are more open and interactive. Finding the right balance between public action, private initiatives and community mobilization will be a key to success. In all efforts and endeavors micro credit will play a pivotal role in poverty eradication there by improving quality of life of the poor people.

***References***


Credit for Marketing Requirements, Master’s Thesis, Mahbubur Rahman, American University of Beirut, Lebanon, 1982.

Credit Programs for the Poor: Household and Inter Household Impacts and Programs Sustainability, BIDS-World Bank, Vol –1, Dhaka, 1996.

Micro Credit Programs in Bangladesh: Giving a Chance to the Poor, PKSF, 2004.

Bangladesh Economic Survey 2005, M/O Finance, GOB.

Country Strategy and Program 2006-2010, Bangladesh, Asian Development Bank, Dhaka, 2005.

Unlocking Potentials (Bangladesh PRSP), GOB, 2005.

**Appendix 1**

**Impacts of BRDB in Selected Micro Credit Project Interventions among Cooperative/ informal Group Members in Project Areas**

(source: SODEV survey report, RD-5 project, Kranti Associate Evaluation Report, Rural Livelihood Project, 2004)

| **Economic Indicators** | **(per cent)** |
|---|---|
| Members rising above poverty line | 70 |
| Change in food intake | |
| Better | 86 |
| Improved | 61 |
| Significantly improved | 25 |
| Acquisition of additional wealth | 44 |
| Undertake household gardening | 76 |
| Homestead tree plantation | 80 |
| | **(Takas)** |
| Average annual household income | Tk.48,500 |
| Average annual per capita income | Tk.09,500 |
| Average annual consumption per household | Tk.31,000 |

| **Social Indicators** | **(per cent)** |
|---|---|
| Adult literacy | 60 |
| Use of tube well water | 98 |
| Use of sanitary latrine | 67 |
| Use of oral saline water | 98.50 |
| Improved housing | 83.90 |
| All-tin shed and brick wall | 30.30 |
| Standard clothing | 76 |
| Women participation in decision making | 92 |
| Adopt family planning | 89 |
| Children covered under EPI | 95 |
| Social action against injustice | 67 |
| Settle disputes mutually or amicably | 70 |
| Participate in village level shalish | 81 |
| Knowledge in prohibition of dowry | 85 |
| Knowledge of divorce law | 80 |
| Knowledge of marriage registration law | 79 |