Microcredit in Rural Bangladesh

Is It Reaching the Poorest?

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Abstract: During the last decade microcredit has exploded in Bangladesh, as well as in a large part of the third world. Empirical studies give strong evidence that microcredit has had positive effects on two vital areas of national development; namely, the alleviation of poverty and the empowerment of women. Despite these positive impacts, some critics question the efficacy of microcredit in reaching the extreme poor. Some argue that while microcredit has contributed positively to the well-being of the poor in general, it has failed to reach the poorest of the poor. This paper explores the reasons why microcredit programs rarely reach the poorest of the poor in rural Bangladesh. The reasons have been divided into five categories: (1) supply, (2) demand, (3) NGDOs' norms and social issues, (4) voluntary and involuntary dropouts, and (5) sustainable financial services. This paper also argues that microcredit alone is not necessarily the best way to help the poorest of the poor.

Microcredit, also known as microfinance, has emerged in Bangladesh[1] as the newest darling of the aid community. Most of the enthusiasm springs from the reputations of a few of the best-known nongovernmental development organizations[2] (NGDOs). These include BRAC (Bangladesh Rural Advancement Committee), Grameen Bank,[3] Proshika—A Center for Human Development, and ASA (Association for Social Advancement). These organizations reach millions of depositors and borrowers, most of them poor women. Although microcredit has claimed more and more of these organizations' aid budgets (Buckley, 1997; Rogaly, 1996), this paper argues that the NGDOs in Bangladesh currently fail to reach the poorest of the poor and that microcredit may not be the most effective way of reaching the extreme poor of the nation.

Figure 1 shows that microcredit has grown at a rapid pace in Bangladesh, particularly during the 1990s. Both private and public sector organizations are involved in microcredit. The constituents of the sector include NGDOs, some nationalized commercial banks, the Bangladesh Rural Development Board (BRDB), and other government organizations. The NGDOs are, however, the leading players in this field. More than thirteen million people in Bangledesh participate in microcredit programs—more than 10% of the country's total population. Of these, 81% are female and 19% are male (Rahman, 2000). Around nine million (more than 7% of the total population) of those participants are enrolled in NGDO programs. There are around fifteen thousand registered NGDOs in Bangladesh. Of these, nearly one thousand deal with microcredit and are commonly known as microfinance NGDOs. In 1999, microfinance NGDOs alone disbursed around US$400 million as credit, showing the significant role that microfinance NGDOs play in Bangladesh (Abed, 2000).

Empirical studies give strong evidence that microcredit has had positive effects on two vital areas of national development; namely, the alleviation of poverty and the empowerment of women. Microcredit has generated considerable hope and expectations among academics, government policymakers, multi-lateral and bilateral donors, NGDO leaders, and other development advocates in Bangladesh (Abed, 2000). Mohammad Yunus, founder of the Grameen Bank, speaks of the emergence of a virtuous circle: ". . . low income, more credit, more investment, more

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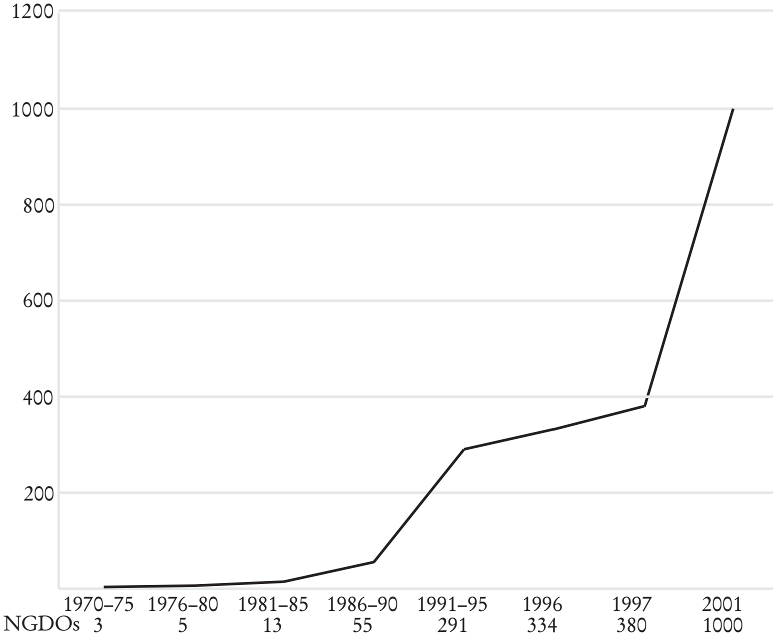
Figure 1. Trend of credit programs by NDGOs since 1970s



income" (as cited by Roth, 1997, p. 7). Accordingly, the North has been promoting microcredit increasingly throughout the South (including Bangladesh) as an effective tool to reduce poverty (Simanowitz, Nkuna, & Kasim, 2000). World Bank President James Wolfensohn labeled microcredit as a "particularly effective way of reaching women." The UN Secretary General calls it "a critical anti-poverty tool for the poorest, especially women." And Hillary Rodham Clinton views microcredit as a tool that will help poor women "survive globalization" (Scully, 2000).

Despite these positive evidences, some critics question the efficacy of microcredit in reaching the extreme poor. Some argue that while microcredit has contributed positively to the well-being of the poor in general, it has failed to reach the poorest of the poor. According to Wright, "the poorest of the poor has become a catchphrase that has been rendered essentially meaningless by abuse and repetition. Realistically, the poorest of the poor are rarely served by microfinance institutions even by the people that use the catchphrase so often. It is increasingly clear and accepted, that the majority of MFIs world-wide are not reaching the poorest of the poor even in the more microfinance-friendly and population-dense environments such as Bangladesh" (Wright & Dondo, 2001, p. 4). Hulme and Mosely (1996, p. 116) discuss the trend of many microfinance institutions to exclude the poorest of the poor, despite the many "lip services" given to them. In addition, many commentators argue that donors and advocates consistently exaggerate the power of microcredit and related assistance, while ignoring key structural issues[4] that are far more pertinent to the long term problems of poverty and of poor people, especially women (Scully, 2000). In response to these beliefs regarding microfinance, this paper explores the reasons why microcredit programs rarely reach the poorest of the poor in rural Bangladesh and argues that microcredit alone is not always the best way to help the poorest of poor.

This paper is organized into four sections. The first section focuses on the sources of data used for the preparation of this paper. The second section categorizes the rural poor in order to explore the status of the extreme poor. The third section discusses the reasons why the extreme poor are excluded from development intervention. The fourth section focuses on the possible policy options to reach the extreme poor.

Sources of Data

Along with secondary information, this paper uses two sets of primary data collected from two different studies. The first study conducted in 1999 by the World Bank as a part of the study titled *Voices of the Poor*. It was conducted in eight rural and two urban locations of Bangladesh (Nabi et. al., 1999). The second study, by Concern Bangladesh, studied two rural and five urban locations from 1999 through 2000, as a part of the expansion strategy of its development program in the poverty-stricken areas of Bangladesh. It was titled *Listening to the Poor*. The author of this paper was directly involved in both of these studies.

In both of these studies, detailed fieldwork reports were created for all study locations. Because this paper focuses on the NGDOs' microcredit involvement in rural areas, only the field reports of the rural locations are analyzed here. The rural locations investigated under the first study are Charfession (Chakraborty, 1999a), Dewanganj (Chakraborty, 1999b), Gowainghat (Datta, 1999a), Khaliajuri (Datta, 1999b), Dhamrai (Nabi, 1999a), Madaripur (Nabi, 1999b), Nachol (Nabi, 1999c), and Ulipur (Nabi, 1999d). The rural locations investigated under the second study are Dimla (Datta, 1999c) and Itna (Datta, 2000). The findings of these field reports have been complemented by the findings of the participatory impact assessment study of Proshika (Kar, Datta, Habib, Cima, Begum, Biswas, & Naser, 1997) and the participatory assessment of village reconstruction work by Concern Bangladesh in Itna and Khaliajuri (Miyazaki, 1999). Each of those studies produced several case studies, some of which were used by this author in organizing his analysis (for example, the case presented in the next section). In addition, analysis of the study findings have been guided by the author's significant field experience in working with local, national, and international microfinance NGDOs.

All the studies mentioned above used the participatory technique, commonly known as PRA (Participatory Rural Appraisal). PRA employs a wide range of methods that enable people to participate in studies by expressing and sharing their opinions and information; these methods also stimulate discussion and analysis. Many of the methods are visually based, appealing to the creativity of the local people (IDS, 1996).

One such method uses social maps to show the positions of households in the study villages, as well as the locations of important local features (i.e. landmarks and resources such as water, forests, schools, and other services). Social mapping was particularly important in this study in locating the poorest households in the communities.

Another such method involves "well-being groups." Well-being grouping exercises categorize the people of the community into groups of economic status. There are usually between three and six economic categories. The clearly-set criteria for each category allows these exercises to identify the exact number of households belonging to each category by considering the financial well-being of the households. The criteria set to define the categories are not merely confined to the financial well-being of the households, but also include socioeconomic aspects related to the overall quality of life; some exercises often include criteria like happiness, the ability to provide a good upbringing for the children, trustworthiness, respect, etc., in carrying out well-being analyses.

Seasonal calendars are another method of encouraging participation in studies. These calendars show how availability, of food, workload, family health, prices, wages, and other important aspects of livelihood vary during the year.

Although each of the independent location studies followed the basic principles of the PRA, consolidating the data taken from the diverse locations was difficult. Drawing a common bond among the ten locations without sacrificing the diversity of the location-specific findings could not be done due to the vast spread between the communities. In order to combine the data, it was necessary to determine the common findings among the locations, as well as the unique.

The Extreme Poor: Profile and Targeting

Profile of the Extreme Poor

From the well-being grouping exercises carried out in the study locations, researchers found a maximum of five well-being categories. There was an average of four categories. Along with establishing a nomenclature for each category, villagers set different criteria for each category. Participants generally referred to the top two categories as the nonpoor, labeling them the rich and the middle. Villagers referred to the bottom three categories as the poor, labeling them as the better-off poor, moderate poor, and extreme poor. All the groups used some common indicators to show the distinct characteristics of each category. These indicators included food security; land holding status; housing status; moveable assets like cattle, poultry, utensils, etc.; status of clothing; number of working male family members; access to credit market; respect in the society; and occupational status.

The better-off poor were largely characterized by food deficit and their ability to provide two regular meals for themselves during lean seasons. The amount of land they held could meet the family's needs for a maximum of two months. They diversified their livelihood, usually combining sharecropping with wage labor. They were trustworthy in the community and could borrow from neighbors as well as from other financial institutions. They were allowed to express opinion on community affairs but could not take leadership.

The moderate poor were generally landless; many of them did not own homesteads. Wage labor was their main source of livelihood. At times, adult male members of the family went to other districts in search of work. Due to the low wage rate in the lean seasons, a day's wage of a male member of the family was not sufficient to provide a balanced meal for each of his family members. To cope with this type of situation, female family members and children also worked as day laborers. They lived without health care and education; cost of both was beyond their means. They did not have the means to entertain guests. Financial institutions and neighbors would not easily give them loans, and loans they did receive rarely satisfied their needs.

The extreme poor owned neither arable land nor homesteads and therefore built their houses on the land belonging to other people. More distinctly, this type of household was headed by women or elderly men, neither of which could work sufficiently to provide for their families. Small children were an immediate burden to the extreme poor families. However, older children (aged eight and up) were important assets to their families. Instead of going to school, these children were engaged in paid labor or household care. These families had low interaction with other social groups. In Dimla, the community labeled them as the beggar class. The study team in Nachol also noted that the extreme poor were clearly identifiable by their poor clothing and dejected faces. Nowhere did these families have access to loans—institutional or noninstitutional. They were screened out of NGDOs' membership, which ruled out their last possibility of receiving any financial assistance.

The causes that contributed the most to the extreme poor category's vulnerability were sickness and natural disaster. If the earning family member failed to work due to sickness, the household's income flow was immediately affected; there was no money coming in and what money there was had to be spent on medical treatment. Though natural disaster shocked the livelihood of the whole community, it affected the extreme poor households faster than the households of other well-being categories. Natural disasters reduced the scope of employment for the agriculture wage laborers, drastically reducing the employment opportunities for the extreme poor.

Though low income could be considered an outcome of crisis, the extreme poor participants qualified low income as a cause of crisis in Charfession, Dewanganj, Gowainghat, Madaripur, Ulipur, and Dimla. According to those questioned, the sources of low income sprang from factors such as seasonal unemployment, intense competition in the labor market, and discrimination towards women. A typical working woman still earned less than half as much as a typical working man. For example, in Ulipur and Dimla (located in northern Bangladesh), women were not usually paid in cash but rather were paid in kind. For women, it was not only the unemployment but also the low and unjust wages that contributed to their crisis.

The extreme poor in the study locations have had very little capacity to maintain a sustainable livelihood. During periods of crisis, they made many adjustments to reduce the impacts of the crisis. Common mechanisms of coping with crises included reducing consumption of food or other essential goods, purchasing inferior substitutes (e.g., low quality food), increasing work efforts of other household members (in most cases, children), asking neighbors and relatives for help (e.g., borrowing money, community fund-raising), postponing debt repayment, and selling moveable assets (e.g., poultry). Those who managed to receive small loans from neighbors or relatives were always very careful to repay their loans; full repayment was very important to receiving loans again in the future. Saving money by starving themselves was also a common strategy in repaying their loans.

Jobeda's Tale: A Member of the Extreme Poor Class

Jobeda Begum was the youngest of five children—four sisters and one brother. Her father, Egbar Ali, was a financially stable man. They had good clothes, a nice home, a decent amount of land, cattle, etc. Yet when her father died when Jobeda was only two years old, her brother took responsibility over the family. When she was only ten, her brother died, leaving her family to the care of her paternal uncle.

At the age of twelve, Jobeda's uncle had her marry a fifty-year-old man. She became a widow after nine years of marriage. At that time, she had a two-year-old son and was pregnant with her second. Not long after her second son's birth, her husband's older brother took her property from her and turned her out of her own house. She took shelter in the home of a neighbor and lives there to this day. She began to work as a day laborer in agricultural field while trying to rear her two young sons. Sadly, her oldest son died of small pox at the age of twelve. And when her remaining son was eight, she learned that he was mentally handicapped.

Jobeda is now fifty-five. She feels helpless; to have reached the end of her life. Few show any interest in providing her with work because of her weakened physical capacity. Regardless, she continues to work very hard. Because of her low earnings, she can barely manage one square meal a day for her family. If she manages to find work, her family can eat; otherwise, the family starves. Ironically, she does not qualify for loans. As she was unable to deposit money into a savings fund, she did not receive a membership to the Proshika, the only NGDO working in that particular village at that time.

Jobeda shows little hope for the future. "I have already forgotten the feelings of happiness. I do not want it any more, because I will die within a few years. However, I feel helpless when I think about the future of my son. Who will take care of him?" (Datta, 1999b)

Targeting the Extreme Poor

The open-ended well-being analysis allowed participants to divide their community into as many categories as they wanted. Because of the variation in the number of categories across the ten study locations, it was very difficult to quantify the findings into one single format.

A few PRA experts suggested choosing one location as a standard. This "standard location" would have a maximum number of well-being categories, and all other locations would be adjusted to match. This technique is commonly known as the super-imposed technique (Kar et. al., 1997). According to this suggestion, the Ulipur location was chosen as a standard to represent all the other locations. The sets of criteria for each category were reviewed and compared with that of Ulipur. The categories that matched those of Ulipur were merged as appropriate. While this process obviously discounted some diversity, it nevertheless served the purpose of allowing comparisons despite the diversity of the different study locations.

Table 1 shows that about eleven hundred households were directly involved with the NGDOs, yet only 12% belonged to the extreme poor category. In addition, focused group discussions within the extreme poor category clearly indicated that although 12% of extreme poor families were affiliated with NGDOs, their level of involvement with those NGDOs was less functional in comparison to the involvement of other categories. This observation implies that even when included in an NGDO, the extreme poor still may not receive loans. For example, the more affluent members of the NGDO group often encouraged or even pushed the extreme poor to participate in the adult literacy program (ALP) or consciousness raising

Table 1. Distribution of households by categories of well being

Classification of households	Distribution of total households living in the study locations		Distribution of NGDO member households in the study locations	
	Number	%	Number	%
Rich	112	5.3%	0	0.0%
Middle	223	10.6%	23	2.1%
Better off Poor	664	31.5%	643	58.9%
Moderate Poor	488	23.2%	293	26.8%
Extreme Poor	620	29.4%	134	12.2%
Total Household	2107	100.0%	1093	100.0%

(CR) training. However, the members of the group who were better-off financially may not have felt comfortable in recommending their poorer counterparts for loans because of the extreme poor's lack of training.

Well-being analysis clearly revealed that the two most important criteria that determined the well-being of the poor were their productivity and possession of land[5] and their access to credit. Those who had already become landless (or had only homestead land) depended largely on casual labor and other manual labor intensive activities like earthwork, cart pulling, agricultural labor, etc. Cash income from the sale of manual labor again depended on agricultural activities, which was further determined by the frequency of rain and floods, the availability of irrigation, and other factors. A longer duration of floodwater retention inversely affected the availability of labor-selling opportunities for the landless. A prolonged flood or similar situation, which stopped job opportunities for the landless or seasonal agricultural laborers, triggered the process of transformation from poor to extreme poor. In situations without any guarantee that the loan amount would be used to create tangible assets, the NGDOs were again responsible to determine whether or not to select an extremely poor person as member of a group to receive microcredit support (Kar & Datta, 1999).

Therefore, although many NGDOs talk about their propoor development strategy, it is evident from the exercises of social mapping and well-being grouping in the study villages that generally the better-off poor and to some extent the moderate poor receive the maximum benefit of obtaining microcredit from the NGDOs' development interventions.

Why Are the Poorest Excluded?

The reasons behind the exclusion of the extreme poor can be categorized in five ways: (1) supply side factors, (2) demand factors, (3) factors related to NGDOs' norms and social issues, (4) factors related to voluntary and involuntary dropouts, and (5) factors related to sustainable financial services.

Supply Side Factors

Until recently, the NGDOs did not seem to have the vision to reach the extreme poor. The fact that the poor are differentiated by income and socioeconomic status has been recognized only recently. Field-level investigation reveals that the extreme poor have not been targeted specifically. The very few such households that have participated in these programs have been included accidentally rather than systematically. In addition, other social programs of NGDOs are unavailable to the extreme poor because microcredit and most of the social programs of NGDOs are highly interrelated and often inseparable.

During the field studies, it was found that BRAC's NFPE (Non Formal Primary Education) program and Concern Bangladesh's Earthwork Program[6] were indeed available to all poor, whereas all other programs were credit oriented. However, in relation to the Earthwork program, Miyazaki (1999) documented:

> A number of people do not participate simply because they cannot. The majority of The Very Poor families who do not participate belong to this category. These families are mostly headed by women, disabled people, elderly persons, and ill-health persons. A female household head, even if she is healthy, often finds it impossible to participate in the earthwork when she has a small baby and when she has no one but herself to take care of the baby.

Clearly, the extreme poor cannot always participate in development programs, even when they give equal opportunity to the less poor and the extreme poor to participate. This indicates a need for a special focus on the extreme poor to ensure their effective participation in the programs.

There are some other selection criteria that are used by NGDOs to target households. Some examples of these include permanent settlement and residence of members, which bar the extreme poor from being benefited from the programs. It was found that some members of ASA and ActionAid in Dewanganj lost their membership not because of their failure to pay the installments, but because they lost their houses due to riverbank erosion. The selection criteria used by Concern Bangladesh to target households in Gowainghat, Khaliajuri, and Dimla included stability in the settlement, age below 45, and regular savings requirement, all of which bar the extreme poor from benefiting from the programs. Regular savings is also mandatory to become a member of Grammen Bank, BRAC, and Proshika. This has been found at three study locations, namely Dhamrai, Nachol, and Madaripur. Additionally in Dewanganj, study participants have severely criticized the selection criteria of beneficiaries in CARE's Road Maintenance Program.

The key selection criteria of the Road Maintenance program are as follows: the candidates must be (1) permanent residents of the respective unions, (2) aged between 18 and 35, and (3) physically sound and capable of doing the work that road maintenance requires. The first criterion specifically excludes the extreme poor who don't have a permanent address (e.g., the extreme poor who have lost their homeland due to riverbank erosion and now live in the embankment). The second and third criteria exclude the extremely poor who are subject to old age vulnerabilities.

In most cases, NGDOs do not reach areas where infrastructural facilities are less developed. Due to time consuming communication and transportation systems, the issue of extending aid programs to these areas is usually avoided. For example, char areas (land emerged from the river through the deposition of sand and silt from upstream) of Dimla and Dewanganj are always affected by flood and riverbank erosion. Charfession is a cyclone prone area. Flash flood and village erosion is common in Khaliajuri. These disaster prone areas are invariably inhabited by a large number of extreme poor, yet the NGDO interventions are not sufficiently available. Instead, they are more abundant in the highway sides and more developed areas, such as Dhamrai, which is located near the Dhaka Export Processing Zone (EPZ). NGDOs also consider the presence of local security because of the cash-handling that is involved in microfinance activities.

Since the more prosperous members of the groups shoulder joint responsibility of repayment, NGDOs likewise prefer members from more prosperous areas, again exluding the extreme poor. In some cases, boys and girls between the ages of eight and twelve from better-off families were included as group members by one of their family members. This was done intentionally to gain stronger hold in the group. Unfortunately, such irregularities also contributed to marginalizing the less-powerful members of the group, and resulted in larger amounts of loan amassed to some families.

Finally, it is important to mention the existence of a contradiction between the macro and micro objectives of the programs. At the macro level, NGDOs want to alleviate poverty among the extreme poor, with a recovery rate close to 100%. But at the micro level, the demanding target of fulfilling this recovery rate becomes the most important issue facing NGDO field officers. Consequently, the field-level staff hesitates to extend loans to the extreme poor for fear that the loans will not be repaid. As a result, field officers form groups with the more affluent members within the poor populations, thereby providing themselves with more assurance of recovering the funds while still choosing borrowers that fit within the definition of "the poor."

Demand Side Factors

The extreme poor do not have the ability to take risks, which is a key factor in becoming successful entrepreneurs. A large majority of these poor do not initially want microcredit because they fear that they would be unable to repay the loans and would therefore be saddled with debt that would eventually force them to sell what few possessions they do have (Hashemi, 1997). Their ability and willingness to make profitable investments of the funds would generate the demand for microcredit. The question, therefore, is whether the ability and willingness to receive microcredit is indeed weaker among the extreme poor households when compared to the less poor, and if so, why?

In finding the answers to these questions, it is important to understand the operational basis of microcredit financing enterprises. Such enterprises use supplementary resources owned by the families. A larger family labor force makes that household more suitable for microcredit. More than one working family member ensures a higher amount of total labor input into the enterprise, thus generating a higher return on the capital. In such multiworker families, part of the loan can be repaid from the earnings of several members. Therefore, families with a low ratio of workers to dependent members will be less enthusiastic about obtaining microcredit.

Households headed by women, usually found in the poorest category, also face constraints utilizing microcredit. These households often lack male members of working age who can perform marketing functions. They also have a lower ratio of working family members to dependants, and thus lack supplementary income to make loan repayments.

It is no secret that current interest rates in microcredit programs are extremely high and that they increase every year. For example, Proshika's interest rate increased from 13% in 1995–96 to 20% in 2000–01. This increase indicates a 7% increase in the interest rate (implying a 54% increase in the volume of money collected as interest) in only six years (CDF, 2001). Larger national NGDOs take on an average18 to 24% interest using the declining method (e.g., Proshika, Grameen Bank), or 15% using the flat method (e.g., BRAC, ASA). Most local NGDOs take 20 to 30% interest (flat method). In the study locations, participants from the extreme poor households said that they rarely found any sector that could realize such a high return on its investment (FACET, 2000, p. 2).

Along with high interest rates, weekly repayment procedures also highly discourage extreme poor households from accepting NGDO loans. These households find difficulties repaying the loans in weekly installments with the high interest rates. While some study findings in Dhamrai show that some of these types of households do have interest in receiving seasonal loans (for cattle-fattening projects), most of these households cannot take the risks associated with borrowing. Since their ability to repay relies heavily on the health of the cattle, sick animals mean no income—a great risk. In addition, these households fear a weekly repayment installment plan, as these weekly obligations would be possible only after the income earned from the sale of the cows.

Factors Related to NGDOs' Norms and Social Issues

Often the extreme poor fail to join the groups because they are not able to comply with NGDO norms. These difficult standards include the regular savings requirement, declared or undeclared minimum floor of loan size, and the requirement of weekly installments (Alamgir, 1997; Rahman, 1998).

In areas such as Gowainghat, where religious conservatism is very high, women of extreme poor families do not join groups because of social and religious sanctions. These sanctions dictate that joining credit programs and leaving the home for meetings with other men is inappropriate.

Sometimes extremely poor women fail to join groups because other group members feel that their inclusion involves high risks. Part of this fear lies in the fact that some of the husbands of these women are public gamblers and may waste loaned money. Group members also hesitate to allow the extreme poor to participate for fear that they lack money-management skills; they are often transient families, moving in and out of villages looking for work.

Factors Related to Voluntary and Involuntary Dropouts

NGDOs' failure to serve the extreme poor may result from dropout from membership, a problem as serious as exclusion from membership. Dropouts occur when borrowers do not or cannot make suitable investments with the borrowed funds. Dropouts are also associated with loan default, both voluntary as well as involuntary. Failure to generate an adequate return on the investment of borrowed funds inevitably results in failure to repay the loan. This inability to generate adequate return on investments may be due to low marginal product of capital, illness of working members, natural calamity, or mere lack of initiative and enthusiasm, etc. Once a borrower decides to dropout, he/she has no incentive to repay the loan. Since repayment is a precondition for obtaining a repeated loan, the opportunity will likely never come again for the borrower.

In addition to the financial reasons, dropout may occur due to an inability to comply with group discipline. Such discipline includes regular group meetings and memorizing the basic principles (e.g., sixteen decisions of Grameen Bank).

In the study locations, dropouts were found even in BRAC's IGVGD and Agro Forestry programs, which were specifically designed to reach the extreme poor.[7] In IGVGD, women dropped out due to a variety of factors that arise from a lack of entrepreneurial capacity, including morbidity, physical inability, and the risks associated with credit. Additionally, some members were expelled for not observing organizational discipline such as timely repayment of loans. Finally, many destitute farmers could not participate in BRAC's Agro Forestry program because of the intensive physical labor required in the initial stage of developing the land for productive purposes.

Factors Related to Sustainable Financial Services

Presently, the NGDO's financial viability is the forefront consideration in deciding whether or not to offer sustainable financial services to the poor. Financial viability refers to NGDOs' ability to recover the full cost of operations of microcredit programs, as well as to gradually accumulate surpluses to create their own capital. This issue deals with two aspects: (1) enhancing income, and (2) reducing costs to facilitate the full recovery of expenditures

(Abels, 1993; Abels, 2001). Generating adequate income to cover the full cost of operations requires a minimum level of scale of operations in terms of the number of borrowers, loan amount disbursed, and interest rate charged by the NGDOs. Since the interest rate has settled between 20 and 30%, the only way to enhance total income is to increase disbursement for a given size of operation. Most NGDOs, big and small, follow this strategy (Abels, 2001).

To achieve a greater volume of disbursement, NGDOs disburse increasingly larger amounts of loans per member. In order for borrowers to manage the larger amounts, a higher capacity is needed, as well as better economic opportunities in rural areas. This forces loan providers' field workers to select better-off members, those with higher loan-absorption capacity. Members of the groups also select their comembers from better-off sections with the hopes that loan installments can be paid regularly, and the risks of default and bad debt can be reduced. Costs of operation go down as income increases, promising more productive loans for field workers. Higher investment in general requires areas having relatively better infrastructures, a process that automatically excludes remote areas.

Policy Options for Reaching the Poorest

The previous sections have made it clear that because of various policies and institutional structures, present microcredit programs rarely reach the poorest of the poor. In order to reach the poorest of the poor, research shows that programs with different mandates, policies, institutional structures, as well as more support from external sources, both governmental and nongovernmental are required. The following are the major policy interventions requisite to making these changes.

NGDOs need to meticulously examine the efficacy of their own activities, specifically examining the increasing gap between their stated philosophical objectives and the actual strategies that they have adopted to reach them. Each organization should introspectively examine the outcomes of their efforts in order to determine whether or not they are indeed meeting their objectives.

There is no doubt that until recently, NGDOs did not have any vision about the sustainable development of the extreme poor, as they thought that this group would automatically benefit from their programs. There should now be a radical change in this understanding; NGDOs' social programs should be redesigned to target the poorest of the poor. NGDOs should take measures to make social programs independent of credit programs, as such programs should not influence the selection of social program beneficiaries. This invisible link between the two types of programs should be erased, thereby ending discrimination against the poor nonmembers in receiving services of the social programs (Cohen & Sebstad, 1999).

The financial services provided by most NGDOs fail to reach the extreme poor because the nature of their credit is mostly for promotion, not survival or protection. Loans for promotional measures allow the better-off poor to expand their business. But as the poorest of the poor are constantly vulnerable to income loss as a result of unforeseen events, they badly need credit for protection and survival. This will help the extreme poor to meet not only their physiological needs, but also their other social needs while they confront the unexpected challenges of life (Eigen, 1992; Tomecko & Kolshorn, 1996). NGDOs need to adopt policies of advancing small and flexible loans that suit the extreme poor, as well as longer, more flexible repayment plans and closer supervision; and they should consider linking microcredit to safety net programs like skills training and food aid (Rahman, 1998).

Basically, microcredit needs to be complemented with other interventions to bring the poorest of the poor out of the vicious circle of poverty. Some of the national NGDOs in Bangladesh have already begun doing so. For example, BRAC's IGVGD program caters to the needs of the most destitute rural women for whom conventional credit programs are not the answer. This program gives wheat-relief rations to women on a monthly basis, provides training in homestead poultry rearing, and progressively offers flexible loans with a monthly (instead of weekly) repayment requirement. These members are gradually absorbed into the mainstream Rural Development Program and are then offered larger loans. This mechanism is designed to facilitate the entry of the poorest into regular credit programs and acts as a transition from a relief program to a longer-term development program (Zaman, 1999; Sattar, Chowdhury, & Hossain, 1999). The Grameen Bank project is experimenting with different ways of ensuring access to the poorest such as the "goat lease" program. Rather than directly providing credit, the bank workers give each woman a goat to raise as their own. These women repay the debt by giving one goat from the first two sets of offspring. This has been very successful in providing assets to the most destitute. Attendance at weekly meetings and participation in weekly savings will potentially help these women develop the necessary confidence to eventually participate in regular credit programs.

Effective GO-NGDO cooperation is necessary to reach the extreme poor. Large NGDOs should try to establish branches in economically depressed areas and attempt to cover the most remote villages within such areas. There should also be attempts to interact with government departments to establish projects for infrastructure development in these areas. NGDOs can work closely with the government food aid programs, such as Food For Work (FFW), Vulnerable Group Development (VGD), Test Relief, and Special Test Relief. During the operation of food aid programs, NGDOs should try to build awareness, motivate participants, and teach development skills among the extreme poor.

Conclusion

There are significant variations among the ranks of the poor. The poor can be classified as better-off poor, moderate poor, and extreme poor. NGDOs in Bangladesh have tended to serve mostly the better-off and the moderate poor, often neglecting the poorest of the poor. Successful microcredit programs require strict screening to ensure that borrowed money can feasibly be repaid. NGDO staff and group leaders are extremely careful to screen out potential risks. Poor recoveries reflect on overall group performance and the performance of NGDO staff. Consequently, households that already have assets or a steady income are more encouraged to join. The problem of "self exclusion" is also widely prevalent, and membership regulations (such as rigidity in meeting attendance and obligatory savings) aggravate the "fears and timidities" of the extreme poor.

Before designing a program for the extreme poor, however, the theory that all poor are reached by microcredit should be tested. In terms of coverage, every poor man and woman cannot possibly be reached with microcredit. Similarly, microcredit may not be a program that is suitable for every segment of society. Every poor man and woman may not be able to become an entrepreneur. For example, it may be more difficult for the elderly or those who are mentally and/or physically handicapped to function as active entrepreneurs.

Proponents of the credit-alone approach argue that the extreme poor need capital, and if capital is provided, the poor will be able to take advantage of self-employment to improve their economic status. This argument, however, ignores the fact that there are many other factors that are equally important for poverty alleviation. Even when microcredit does reach the poorest, it may not increase their income as much as is required for smooth consumption, and may not sufficiently diversify their income either (Mosley & Hulme, 1998; Morduch, 1998). Critics of self-employment initiatives claim that the emphasis on informal sector economic enhancements overlooks the structural factors that cause the economic marginalization of the extreme poor. Microcredit programs define poverty as a temporary and easily remediable cash flow problem, instead of one which indicates relations of inequality and their institutionalization in broader economic policy (White, 1991). The credit-alone approach is something like applying ointment to an open wound while neglecting the root of the problem, which may lie in the blood (Kar & Datta, 2000). Livelihoods of the extreme poor cannot be sectionalized and addressed through only one dimension. Social development is also necessary as a precondition for realizing the full potential of credit and financial interventions (Wood & Sharif, 1997).

The debate between various concepts of sustainability—particularly with regard to the sustainability of NGDOs and beneficiaries—needs to be addressed properly. A proper balance needs to exist between the two. The implementation of the policies mentioned above is indeed difficult for NGDOs because the financial implications of implementing a combined strategy of microcredit and social development are quite heavy (Abed, 2000). Such policies make it more difficult for NGDOs to reach financial sustainability. When the aspirations for financial sustainability and the objectives of serving the poorest contradict each other, it is likely that the latter objectives will be sacrificed, especially when the donor's goal is to achieve sustainability. As noted in Goetz and Gupta (1996), donors' interests in seeking the development of financial, self-sustaining, rural development institutions have resulted in a preoccupation with cost recovery to such an extent that loan repayment rates have become the primary indicators of success. Consequently, the important issue of loan quality goes widely unaddressed. Donors must apply their leverages effectively in order to make NGDOs refocus their guiding principles and restructure the credit operation system, which will bring the extreme poor members under their credit network, hopefully helping them to benefit from the social development programs as well.

Notes

I gratefully acknowledge the contribution of Dr. Erhard Berner and Frits Wils of the Institute of Social Studies, The Netherlands, for their cordial guidance at every stage in developing this paper. I express my heartfelt thanks to Taifur Rahman for his editing of the language of the paper. Thanks also to Gary Woller for providing helpful comments in the finalization process of the paper

1. Bangladesh is one of the world's poorest, most densely populated, and most environmentally vulnerable countries of the world. It has a total land area of 147,960 sq km. According to the 1999 estimate, the GNP per capita is US$370. The total population is 128 million, which is equivalent to 981 people per sq km. The average annual growth rate of GNP in 1998–99 was 3.3% (World Bank, 2000). Despite the country's uncertain climate, agriculture remains the backbone of the economy. About 75% of the population depends, directly or indirectly, on agriculture for its livelihood.

2. For the last decade, NGDOs in Bangladesh have emerged as efficient partners in development. Their efficiency has been shown in disaster management, self-employment creation, human development, infrastructural development within specific geographical areas, and rebuilding of social and institutional cohesion. Significant contribution of NGDOs has also been noted in education, health, and environmental protection. Originally designed by Grameen Bank, most NGDOs are engaged in group organization at the grass roots level, conducting "conscientization" training to build the awareness and confidence of the poor, coupling these efforts with skill training and the provision of microcredit services for income generation. Many NGDOs are now engaged in policy advocacy with the government and donors to redress the policies that negatively affect the poor (Nabi, Datta, Chakraborty, Begum, & Chaudhury, 1999, World Bank, 1996).

3. Professor Yunus, the founder-philosopher of the Grameen Bank, consistently insists that the Grameen Bank should be considered as a bank, not an NGDO, because its principal mission is to challenge the traditional concept of banking based on collateral. Collateral-based banking is designed to be used by elite beneficiaries, thereby prohibiting the overwhelming majority of the productive sections of the population from participation in these intermediaries of artificially cheap institutional capital. But these collateral-based banks could have played the role of "life-blood" for the capital-starved producers who are fighting for survival in the poorer strata of the population, considered by the traditional banks as "unbankable" because of their inability to provide "good collateral" (Islam, 1999).

4.The three key structural issues are (1) agrarian reform, (2) programs favoring export production over subsistence crops, and (3) trade agreements structured in the interests of transnational corporations.

5. Average size of land per capita is very small (0.25 acres) and the size decreases every decade with no scope for expanding the cultivable frontier. Moreover, the inequality in landholding is striking: only 10% of all rural households own about 50% of the cultivable land, with half of the rural population being landless (Nabi et. al., 1999).

6. Concern Bangladesh is running the Food for Work program for village reconstruction in Khaliajuri and Itna, with food assistance from World Food Program. Food for Work is commonly known as the Earthwork Program, which is open to all categories of poor.

7. The Government of Bangladesh introduced the VGD (Vulnerable Group Development) programs in 1975 with the support of the WFP. Through this program each VGD cardholder draws 30 kg of wheat per month for free for a period of 18 months. BRAC developed the IGVGD (Income Generating VGD) program to create a pathway of sustainable livelihoods for the VGD women. The program supports these women through a development package consisting of start-up support, skills training, credit, and other inputs. The Agro Forestry program of BRAC attempts to compensate for the growing deforestation in the country and at the same time create a new avenue of income generation for the extreme poor. BRAC started this program on unused plots of land, degraded due to continuous monocropping and soil erosion. Many people, particularly the affluent farmers, kept their land uncultivated as it was not considered to be productive enough. BRAC arranged long-term lease of these lands from the private owners and allotted this land to poor female farmers.

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