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**A SOCIAL AND FINANCIAL ASSESSMENT OF
MICROFINANCE FOR THE EXTREME POOR-
A CASE STUDY FROM BANGLADESH**

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Abstract:

The study tries to look at the impact of microfinance on the lives of the extreme poor people. There are different views on microcredit/microfinance as a powerful development tool regarding its success in developing the lives of the extreme poor and sometimes these views are contradictory. The purpose of the study was to observe the social and financial changes that have occurred also with an effort to find out the causes of success or failure. The study was conducted in a community of extremely poor indigenous people living in a village of the north-western part of Bangladesh. The study was based on interview, case study, and observational information collected during a four-week fieldwork period in the village. The findings show that vulnerability and income security plays a major role in the success of microcredit for the extreme poor. Though it helps to smooth consumption and improve living standard for the extreme poor vulnerability, risk and lack of skill in microcredit management by the clients cause chronic loan dependency.

Keywords: microfinance, microcredit, extreme poverty, vulnerability, Bangladesh.

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Forward:

I am grateful to the people of the village Bel-amla, who warmly provided me the opportunity to know about their lives. I am thankful to Saju Karmakar, my key informant, for sharing his time, thoughts and taking care of me.

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Chapter One

1.1 Introduction:

Microcredit\finance programme is being used for poverty alleviation in Bangladesh with great enthusiasm and has gained world-wide recognition by many NGOs for a long time. Bangladesh is the birth place of micro-finance/microcredit and proud of winning the Noble Peace Prize by its inventor Dr. Yunus for successful poverty alleviation using this development tool. The main purpose of microfinance is to break the vicious circle of 'low income-low investment-low profit' by inserting capital from outside into the economic life of poor people. According to Adam Smith "Money, says the proverb, makes money. When you have got a little, it is often easy to get more. The great difficulty is to get the little" (Adam Smith, 1937: 93). Microfinance provides "the little" money where even there is total absence of capital or profit as living is based on subsistence only. Thus microfinance seeks to improve the condition of the poor by raising income and profit, thereby making people free from poverty and improving living standard. Its key feature is bringing the bank (money/capital) to the poor where traditional banking system does the opposite and involves a lot of bureaucratic complications and hidden costs like travel cost and sometimes bribing the bank officials. Local moneylenders charge a very high- 10 to 20 percent per month, depending on the seasonal condition and region.

First started as an experimental project by Dr. Muhammad Yunus in a village named Jobra, near Chittagong University (where he was a professor of economics), in the late 1970s it has now grown all over the country. In current overview it has been able to gain huge popularity, both in number of

clients and organizations using microfinance, and in rate of loan return. Where the traditional banks did not consider the poor as loan worthy because of the uncertainty of their returning ability, Grameen Bank (the largest microcredit organization of Bangladesh and joint winner of the Noble Peace Prize) has claimed around 99% returning rate. It is interesting to note that the main borrowers of this money are women and this is a policy decided by the Bank. Women are regarded as more trustworthy and able to deal with money more skilfully than men and this in turn has led to their empowerment. The high rates of loan return have helped microfinance organizations like the Grameen Bank to become self-reliant (not depending on the donors any more) and bring a lot of people out from the national poverty level (Yunus, Nobel Lecture, 2006).

However, it is easier to improve the condition of the people living just below or around the poverty line than the extreme poor (about 32 million people in Bangladesh) as they are more vulnerable and 'risk' clients (World Bank, 2002). Including them with equal acceptance in the client group is likely to make the success rate graph less beautiful. For that reason this group is not considered to be very suitable clients by the microfinance organizations. However, 50% of the people living under the poverty line are identified as extremely poor and in order to reach the Millennium Development Goal (MDG) by 2015 and bring down the number of poor people by 50% it is necessary that these extremely poor people have to be integrated strongly within the present development practises. Organizations working with microfinance/credit expressed strong commitment in incorporating the extreme poor under the programme (Microcredit Summit Campaign 2005). However, some studies (Morduch, 98; Amin, Rai and

Topa, 2003) indicate that the microcredit has not been as successful for the extreme poor as it was for the other group of clients. Sometimes the blame goes towards the poor clients who do not consider themselves eligible or who remain in seclusion from the formal system and sometimes it goes to the organizations who do not consider them as prospective clients due to their vulnerable condition. It is acknowledged by researchers like D.S.K Rao (2004) and S. Ahmed (2004) that the approach towards this particular group should be different than towards others. This makes it is essential to have an in-depth understanding of microcredit and extreme poverty relation from a practical level in order to use it successfully for the extreme poor people.

1.2 Research objective:

The main purpose of the study is to understand the success rate, and the social and economical change created by micro-finance among the extreme poor. I found that the issue may be approached from two different angles. Firstly from the clients' perspective- that is how the extreme poor people involved with microcredit judge the impact of it in their lives and what is their understanding of development gained by it. And it can be also approached from the perspectives of the organizations working with microcredit- how they see the impact of microcredit on these people's lives and how they look at their achievement.

My objective here is to understand the situation from the clients (the extreme poor) perspective- how they perceive micro-finance and how micro-finance is changing their lives. With this I also tried to observe the outreach, success and sustainability of micro-finance programme for the extreme poor. I have put my emphasis on this approach in order to know the situation from the

perspective of the extreme poor people because I think the solution should come by solving the problems of the people whose lives are to be changed. They are the one who can and should show how they want to change their lives and what problems should be solved in order to achieve development.

1.3 Ethical consideration:

The study was conducted by following the ethical principles of research. Name and identity of individuals have been concealed or changed where necessary. All the comments and opinion expressed during the interviews are quoted with permission. Same measures have been taken for the MFIs.

1.4 Types of microcredit:

With the winning of the Noble prize jointly by Grameen Bank and Dr. Mohammad Yunus microcredit has gained world-wide popularity. Maybe now it is the most powerful tool in the development sector. There are various types of microcredit and it is important to know which type one is talking about when one mentions it. Dr. Yunus has identified some types like- Traditional informal microcredit (such as, moneylender's credit, pawn shops, loans from friends and relatives, consumer credit in informal market, etc.), microcredit from government and private banks, cooperative microcredit, consumer microcredit etc. He has clearly distinguished Grameen Bank's microcredit or Grameencredit as a different type because of its social responsibility and- "Most distinctive feature of Grameencredit is that it is not based on any collateral or legally enforceable contracts. It is based on "trust", not on legal procedures and system (Ahmed & Hakim: 2004: 18)". In this study I have considered all the types of microcredit (including the Grameencredit) under the term microfinance/microcredit except the local

moneylender's credit. I have separated this type for its high degree of difference (interest and contacts associated with it) compared with the other types of microcredit by development organizations.

1.5 Theoretical framework:

Microcredit has brought a revolution in poverty eradication and is gradually getting more popular through out the world. Perhaps the most admirable character of microcredit is considering as creditworthy the poor who have no material asset against which they could take loan from the formal banks. It is about putting the trust in them that they are honest and hardworking enough to use it to improve their condition and return the money. It is a tool to connect the poor with the mainstream economy and having the benefits by breaking the 'low income-low capital – low production' cycle. Emphasizing on the women as clients is another distinguishing feature of microcredit which in turns helps to improve their neglected social condition and to create empowerment.

Undoubtedly this is a very powerful tool in the field of development. However, like other such tools it also has weaknesses in its practise. Apart from the criticisms like the interest rate or instalment collection method, the very notion of targeting the 'poor' has been put into question. The official focus group of microcredit are the 'functionally landless' and it bars to give credit to people owning more than 0.5 acre of cultivatable land. According to Murdoch (1998) 30 percent of the Grameen Bank's borrowers own land more than this maximum limit and in his survey it was found that the percentage of clients holding land more than half acre are double than those below. Rahman shows in his paper that this percentage has gradually

increased by comparing among new, medium to old, and older members from 18% to 21% (R. Rahman: 2004: 140). He also identified that according to the land ownership poverty line (0.5 acre) 21% members are in the non-target group (owning land more than 0.5 acre) for large MFI. But on the basis of household expenditure based poverty line 42.8% members are non-poor (ibid).

Besides this laxness in targeting the poor there is also contradictory information on microcredit and extreme poverty relation. A World Bank study by Khandker (2005) shows that microcredit programmes have greater impact on extreme poverty than on moderate poverty where he has defined the extreme poor as households with 20 decimals of land or less. Many advocates of microcredit, including Dr. Yunus, have strongly supported this and are very much hopeful in eradicating extreme poverty by microcredit. But according to Wright, microcredit has failed to reach the extreme poor worldwide, even in Bangladesh (Wright and Dondo: 2001:4). Similar Comment has been made by S. Ahmed (2004: 35) where he questions the effectiveness of microcredit for the extreme poor - "Perhaps microcredit, in its current practise is not the answer for the extreme poor". In the later studies 'extreme poverty' has been defined by different measures like headcount or 1 dollar a day method. However, regarding the criticism, Dr. Yunus (2004: 17) argued that 'from this big pot full of "microfinance" stew, they picked up all kinds of examples to come out with all kinds of conclusion. What is interesting here is that besides using different samples in these studies also the use of different definitions of extreme poverty. Surely to eradicate extreme poverty it is essential to know which extreme poverty we are talking about but most importantly these confusions and

contradictions shows the gap in its overwhelmingly claimed success in reducing extreme poverty by the advocates of microcredit.

While dealing with the issue of eradicating extreme poverty by microcredit, the debate does not rest only on identifying the different characteristics of extreme poverty. Similar type of question can be put forward for the character of the tool that is being used to eradicate extreme poverty. Are the features of microcredit capable enough to address the need of the extreme poor? It is also important to decide who, why and how is going to define this “need”. From the development shifts of “top-down process” to “bottom-up process”, “participatory approach” and such other in the development discourse has shown the weakness of the “development” drive and it is the poor people who had to suffer the consequences. Jeffrey D. Sachs, Director of the UN’s Millennium Development Goal (MDG) and responsible to reduce absolute poverty worldwide by half with in 2015, pointed out that “it is not failure of development which has to be feared, but its success (1992: 3)” (Nederveen Pieterse 2000: 175; quoted in Desai & Potter 2002: 16). Microcredit has shown success to reduce poverty but its success does not necessarily mean that it is a solution for all types of poverty everywhere. This success has to be very critically analyzed before implying it for the extreme poor as they are living in a very vulnerable condition and any kind of mistake in their development process will be more lethal than the groups living around the poverty line.

1.6 Central Concepts:

Here I will try to define the concept of social and financial assessment, microfinance/credit, and extreme poverty as I used in my study.

1.6.1 Social and financial assessment:

I did not use any particular scale for assessing the change in the social and financial condition of the people I studied. For financial assessment I tried to find out the change in their financial condition since they have started taking microcredit. This information was collected by in-depth interviewing the people, case studies and observation. It was not so easy to understand the change in their social status following the change in their economic condition through microfinance. Talking to the villagers and also outsiders about this has helped to get an overall idea and it became clearer with spending more time in the social environment of the village.

1.6.2 Microfinance/credit:

Microcredit and microfinance have little difference. Microcredit provides cash money where microfinance can also be used for providing assets like a rickshaw or livestock for the client. In the study area I found some cases of microfinance but they are very limited and microcredit is the most prominent. I have used the term microcredit and microfinance in similar meaning avoiding the difference in this study. Microcredit is a type of small amount of loan which is paid back in small instalments. The amount, interest rate, payment method and target client group can vary in different microfinance institutions (MFIs). Contrary to the formal banking system the MFIs bring their service to the clients' doorstep.

1.6.3 Extreme poverty (hardcore poverty):

I think it is very important to specifically define extreme/hardcore poor for the study. There are several ways in which the degree of poverty is measured like the calorie intake method, headcount method, per head income etc. There are also some characteristics that are related to extreme poverty, for example- land ownership, occupation, poultry and livestock, dependence on debt, number of earning member etc. Sometimes different methods and characteristics are used to define it in different studies. In the study I have taken a single household as a single consumption unit and used the per head income method (living on less than one dollar per family per day) for determining extreme poverty as it was the most suitable form in the context.

Chapter Two

2.1 Selecting location:

I wanted to conduct the study in a very poor region of Bangladesh where the people are using microcredit. For this reason I found the north-western part of Bangladesh most suitable. This region is relatively poorer than the rest of the country and suffers from a seasonal lean period known as *monga* during the months of September and October (*Ashin & Kartik* of Bangla calander). During *monga* there is serious scarcity of food and it is hard to find any work for the poor people. They often come to distant cities in search of work to support their family.

After selecting the region I found an NGO working particularly on that region named *Ashrai*. I made some contacts and described about my study. They were willing to help me and thorough out the study I remained in touch with them. As they also has microcredit programme although their main

focus is to create awareness I found this organization suitable for providing me an access in the area.

I arrived in *Joypurhat* and tried to gain an understanding about the socio-economic condition of the region and find a poor village for my study. I had no prior intention to work mainly on the tribal people living there. During my first week I gradually understood that among the people of the area this indigenous group (Santal and their other sub groups) are relatively poorer, economically and as well as in terms of social rights. They are the poorest among the poor. They are treated as a lower social class than the other Bangalis. Some organizations, including *Ashrai*, are working for there rights and creating awareness along with providing microcredit. These aspects influenced me to conduct the study among this indigenous group. After visiting several poor villages I selected *Bel-amlā* for my study which has an *Adibashi* (indigenous people) majority living in close community. This village was the poorest that I have visited in the area. I came to realize this by talking to the people about their work, living condition and mostly observing their household condition. This fact was also supported by the NGO officials working in that region.

2.2 Data collection method:

This is a qualitative study and case study is the main tool used here. I tried to understand the socio-economic condition of the households by informal interviews (the guideline used is included in the Appendix). I also interviewed some people in depth to understand their experience with microcredit, NGOs and their concept of development. Without influencing the prevailing environment I tried to observe the situation as a participant

observer. To have an insider's perspective I also tried to do social mapping. I asked some community members (sometimes individually and sometimes alone) to rank the households by economic condition. What they found hard is to place themselves according to this scale. After taking several samples I got a good idea about the economic condition of different families among the community. I interviewed some NGO workers working in that area to understand their perspective in this context. In two situations I was able put some key concepts and questions to a group of people of the community (after they had a class organized by an NGO on creating awareness) like a focus group discussion. In general I consider this as a mix method study and very much context dependent.

2.3 Validity of data:

I was afraid that the villagers might tell me about the misfortunes and hide the real situation (as they generally do to get help from the NGOs). Sometimes it really happened and sometimes I also experienced the opposite situation. Some of them were trying to hide their poor condition from me. For example, during the first week of my study in the community one woman told me that she does not have to go to work as her husband earns enough for the small family of two members. This seemed strange as I later came to know that the family is one of the poorest and has a big amount of debt. With the length of my stay I understood that she was feeling shy to speak to a newcomer about her miserable condition. Gradually as I became more accepted in the community these problems began to disappear. I also did cross-referencing to judge the reliability of the data. Actually in this so closely living and small amount of material asset owning community almost everyone knows about everyone else's condition; even in most cases they

also know the exact amount of loan of each other. I also cross-referenced the information between the NGOs and client villagers. Lastly I depended on my observation to face any anomaly between the data and my understanding.

2.4 Limitations of the study:

One of the limitations of my study is that I was not able to spend the nights among the community. It was not possible for a number of reasons. Firstly, it will not seem 'normal' to the community to live among them in order to get to know about their condition. Secondly, I will be treated as a guest and therefore I won't be able to pay for the extra expense. It will be a big burden for these poor people to have a guest for almost a month. To overcome this I tried to spend as much time as I could without spending the night in the village (I arrived usually between 9 to 10 am in the morning and left around 8 pm when they were preparing their supper and getting ready to go to bed). I spent two nights in two occasions among them but I think it would have been better if I could spend more time.

There are seasonal variations in their daily life and level of hardship. The study was done when food and work was relatively more available. During this time the *Aman* (second and last of the year) paddy was being harvested. So the study has some limitations in observing the full-length life pattern through out the year.

2.5 Making my position:

It was not possible to make a neutral position to the people of the community. It was a *real world* with *real poor villagers* and I was a

stranger. I met my key informant, Saju Karmakar, in a market outside the village with the help of an Ashrai worker. He was the community organizer for Ashrai and also involved actively with many other NGOs working in this community. He was 19 and going to take the higher secondary school examination next year. It took some time to make him believe that I am just a student, not working for any NGO or any organization and this is just a part of my study. Usually as he experienced this kind of studies or surveys are done by various NGOs. As I spent days with him he asked me what will be gained from this study, for me or for them. I tried my best but it was not easy to explain.

However, I entered into the village with Saju and got introduced to the families by him. He was very popular and helpful to all. He helped me to explain to the families that I am just a student, not working for any NGO and they can talk to me freely. I began to realize that the villagers have accepted my identity and have understood that I was harmless when they were criticizing the NGOs (even Ashrai) in front of me. I spent my first couple of days making rapport with the villagers, playing with children, moving around the village with Saju and some other boys. These behaviours assured them about my identity; they also became curious about me and started to ask me questions about my family, the city where I live, how I do like it here and so on. So my interviews started mostly like a conversation and getting to know each other.

Chapter Three

3.1 The Santals (or Shaotals):

The Santals as tribal population are more common in India. Physically they can be easily distinguished from the others by their taller height and darker complexion. In Bangladesh the Santals live in several districts of the north-western part which is close to where the Indian Santals in West Bengal are mainly located. They have their own Santal religion and also practise some part Hindu religion. They practise their own special festivals and occasions with Hindu religion. A large number of Santals have been converted into Christianity by the missionaries. This conversion is still going on. But there is rarely any Santal Muslim. Santals have their own language and a rich cultural history. Unfortunately Santals were not interested in formal education mainly due to the language difference. Gradually they have got separated from the mainstream and are absent in the formal institutions. Santals are known for their honesty and ability to work hard. Even now the Santals labourers are paid more than the Bengalis. From the British colonial period Santals are being used as tea garden labourers in the tea gardens of West-Bengal. Even among the Santals of Joypurhat (where there is no tea garden) there are songs with mention of tea gardens and hills (Banglapedia, 2006, Santal).

The Santals living in Joypurhat regard themselves as the ‘original local’ (adivashi) people living there with the local Hindus since before the partition of India and Pakistan in 1947. Then they were living under the Hindu *jamindars* (large land owner). Ruins of the residences of these *jamindars* can

be found in different places. The Muslims settled later after the partition and gradually became the owner of the shaotal's land by taking advantage of their simplicity and illiteracy. As Saju (a Shaotal) describes:

The Muslim flattered a large land owning Santal by calling him *morol* (leader) and asked him to sell a piece of land. When he agreed to sell 10 *katha* the Muslim said that the officer who is going to make the legal document does not understand *katha* so he should say *bigha* (which is equal to 20 *katha*) instead of *katha* when the officer asks. As the Santal did not know how to read or write and nor the official rules, he agreed to do so and got cheated. More or less the same thing happened everywhere (interview, November 2006).

I heard this same thing from Santals of several villages. Some even mentioned cases like making the landowner Santal drunk (drinking homemade beer is a tradition among the Santals) by the outsider Muslim and taking his word to sell his land at a cheap price. They all defined the Santals as the previous land owning class who are now mostly labourers for their simplicity and lack of education. During my stay in Joypurhat I also found the Santals as more frank, simple and friendlier than the others.

3.2 Socio-economic condition of the community:

Total population of the community is 137 (offspring living with parents 62, parents 66, grand parents 9) living in 33 households. Except newly joined three Muslim households all of them belong to a low caste Shaotal called Karmakar. Karmakar means metal artisan or blacksmith but they are not engaged with this trade and totally dependent on agriculture (as labourer) or

other kind of physical work like rickshaw pulling. The highest education level is higher secondary among the young, except them only three persons (parents) can read and write. However, most of the adults can sign their name. They had to learn this as it is required to take loan from the NGOs. 31 households out of 33 are currently involved with microcredit from different NGOs. One household that does not have any experience of taking microcredit is a new couple. They are sharing a small piece of land of the groom's father and live in a small mud house with broken roof. They are one of the poorest households in the community and they said that NGOs don't want to give them credit as they have no asset beside only few old pots and plates.

3.3 Landownership:

They live in a close cluster of houses on a piece of land owned by the government. They have legal permission to stay there but do not possess any property right to sell the land or use it for any other purpose. Among these 31 Karmakar households none owns any agricultural land and only three can afford to have small piece of land for *adhi* or share cropping (1.0 *bigha** each). In *adhi* the owner of the land (usually a Muslim) and the farmer gets equal share of the harvest. Usually Local landowners prefer more affluent farmers living in the neighbouring community for *adhi*. Thus, they are trapped in their position depending on agricultural labour. However, one family that has made significant economic progress recently has paid primary instalment to buy one *bigha* land.

(*1 bigha = 1/5 acre)

3.4 Material asset:

All the houses are made of mud, bamboo and straw. Except three houses all the other has tin roof. This cluster of houses is situated on a high ground and they are selling the soil (3 to 4 feet deep) of their homestead to the local brickfield. In return they are getting brick to build the walls of their house. Instead of cement mud is used to make this wall. One of the households has got a television, a CD player (they got those in a lottery during a festival) and a bicycle. Another household owned a rickshaw but it was stolen a month ago. These people don't own much livestock mainly because they get stolen easily as they don't have secure space to keep cattle. There are two cows, three calves, thirteen goats, eight chicken and six ducks in the community owned by different families. Very often they have to sell these livestock in time of danger, hardship or to repay loan.

3.5 Occupation and income:

The main agricultural product is rice and sugarcane and all the adult male and female work as agricultural labourer during the harvest and planting season. During only these two seasons (total 4 to 5 months) man and woman both can work. While the Muslims and Hindus generally do not want to allow their wives to work in the field, the Shaotals have no restriction like this and it is common to work for both during the harvest and planting season when work is available. Woman get less wage than man, usually a man's daily wage is 50 to 80 taka (1 US dollar = 70 taka) depending on work and demand, and a woman's wage is 40 to 70 taka. This wage can be inclusive or exclusive lunch. Interestingly the women can plant paddy more efficiently than man so they are more in demand during the planting season. During the rest of the year most of the men work as rickshaw or van puller.

Assessing their occupation and income revealed that all the households lived in extreme poverty level.

Another type of profession available during the dry winter season is in the brickfield but this is not very available as the brickfields are limited and requires special skill. Some also work in the rice mill or as permanent labourers for wealthy farmers. Male members of some households go to distant cities to pull rickshaw during the *monga* season. Sometimes they also have to sell labour in advance during this season (promising to work during the harvest or planting season when work is needed in the field) at a very low rate, 20 to 25 taka per day. Two persons have the opportunity to work in a single job during the whole year, one in a rice mill and the other in a small workshop. Another two persons work as permanent labourers for wealthy farmers for ten months of the year. These four persons belong to the top income category households. Young children sometimes work in the nearby brickfield for a brief period of time or help their parents.

Chapter Four

4.1 NGOs and the community:

Microcredit programme of sixteen NGOs were found in this small community of which three does not work here anymore. World Vision (WV) and NDC are among the oldest, working for 14 and 12 years respectively. The others are working for an average of 5 years. So NDC and WV are the two NGOs that worked here alone for a long time. WV doesn't have regular microcredit programme but it is very popular among the people as it has

rebuilt the local school, given tube wells, cattle, tin for roof and is helping them in the education of some children. People do not take credit from NDC anymore as the other NGOs offer better facilities. The study was mainly focused on the changes of the last five years created by microcredit programme of the rest fourteen NGOs.

4.2 Use of microcredit:

Microcredit is being used by the villagers in different purposes like use in agriculture (for those who are engaged in sharecropping), educational expenses (tuition/examination fee), buying furniture and house repairing, buying livestock/poultry, buying rickshaw/van, buying clothes, illness, marriage and dowry, to buy food during *monga* or illness, repaying other credit (especially from local money lenders) etc. As it was observed, microcredit was being used by the community members more or almost in other sectors than income generating activities. Among them loan prepayment and household expenses are a major sector of using microcredit. Some people are also taking microcredit as soon as they become eligible to get it without making any prior plan to invest the money. According to Saju when a family enjoys big fish or meat without any occasion it is most likely that they have received microcredit and in many cases during the first days after getting the money people spends a part of the money on rich diet.

4.3 Economic condition category of households:

The households can be divided loosely in to three categories: (1) have some savings and making gradual progress, (2) in vulnerable condition and have to work hard to meet the ends, and (3) in a decreasing condition and are facing trouble to meet daily needs.

Roughly, four households were identified that belong to the first category. These households have one thing in common, they have one earning member in each family who is employed full time (at least for 10 months of the year). Two person work as permanent labourer (10 months of the year) for other rich farmers, another person work in a rice mill and the other work in small workshop. They were in a vulnerable condition like the most of the community but they are slowly developing and have the security to eat at least once a day through out the whole year. Some aspects of these households are shown in the table below:

Table: 1

Head of the HH	Jhulon	Robin	Horipodo	Rohindro
HH member	4m & 2f	2m & 4f	2m & 1f	3m & 3f
Earning member	3	3	2	3
Livestock	1 calf	1 cow	1 cow	1 calf & 6 goats
Loan taken/ due	17000/3300	9000/1820	7000/3000	11000/4625
sharecropping	yes	yes	no	no

*HH: Household, m: male, f: female

Most of the households of the community belong to category two. They do not have any regular income and live in a vulnerable condition. They can afford to eat once or twice a day when work is available. For a period of time every year they have to depend on credit to survive. Their situation is very unstable and can anytime drop to category three for illness or accident.

Five families were identified whose condition have decreases in the last five years. They are in debt to MFIs and local money lenders and finding it hard to repay the loans. One family (an old couple without any son) has recently paid the dowry of their youngest daughter by microcredit and after paying it back they are not interested in taking credit any more. Another family (a new couple) is not taking any credit as they are not offered any. According to them, they are so poor that the NGOs do not want to give them credit.

The family of Milon was one of the affluent families in the community. Their condition gradually decreased when Milon lost his job in the local sugar mill four years ago. After that he tried to be a rickshaw puller but he had an accident which cost him a lot of money. When he got well and bought a new rickshaw by taking more credit it was stolen shortly. Some aspects of five households involved with micro credit and belonging to category three are shown in the following table:

Table: 2

Head of the HH	Kalipodo	Manoda Rani	Shudir	Fhulchan	Milon
HH member	2m & 4f	1f	1f & 1m	2m & 3f	5m & 2f
Earning member	2	1	2	3	6
Livestock	0	0	0	0	0
Loan taken/ due	24000/530 0	12000/330 0	23500/1280 0	24000/6700	62000/1240 0

*HH: Household, m: male, f: female

Comparing the two tables shows that the poorest people have taken more credit and are more in debt. They do not have any permanent work and are not engaged in livestock rearing. On the contrary, the less poor have taken less credit and have less due. They have used microcredit successfully to improve their condition. It was found that the size of the family (number of dependent persons), amount of due loan, livestock, and type of occupation were the major factors in deciding the economic condition of a family in ranking the households by the respondents.

4.4 Overall change in living standard:

In general most of the respondents think that there has been a positive change in the living condition of the people of the community with the use of microcredit for the last five years. More people are living in tin shed houses and can buy household furniture. People are able to eat during *monga*, do not have to starve like before. Microcredit has also given them chance to buy rickshaw or van to get self-employed. Some people are also making profit by cattle rearing. Overall, most of the people think that the quality of living has improved. They did not have the opportunity to save enough money to buy a rickshaw or a calf, microcredit has given them this opportunity in a better way than depending on the local money lenders. Their option of access to cash money has increased with the number of microcredit organizations. However, they also mentioned that tension and anxiety has also increased in their lives. Gojen, a community member, said- “Before, we could sleep well without any anxiety. Now we have to worry about paying instalment of microcredit every day. We have to pay it even if we can’t eat (interview, November, 2006). ”

4.5 Microcredit and local traditional moneylenders:

Traditional money lenders play a big role in chronic poverty in the village. Their high rate of interest keeps the clients indebt for a long time and clients have to be lucky and very well planned to repay loan. Traditional money lenders charge 10 to 20 percent interest (depending on season and demand) *per month* and failing to pay interest one month results to pay interest jointly on the loan and the unpaid interest from the next month. Generally, it's hard for the poor people of the community to pay the monthly interest, let alone the loan.

With the expansion of microcredit by MFIs (Micro Finance Institutions) the traditional local money lenders' business is threatened. In comparison, the MFIs have much better deal with interest rate of around 15 percent per year which should have prevented people from taking loan from the local money lenders. However, during the study it was found that the number of local money lenders has increased. People are still taking loan from them more frequently (in smaller amount) to pay the weekly instalment of microcredit taken from the MFIs with regular reasons like marriage, accident, examination fee and illness. When people borrow from the money lenders to pay the weekly instalment of microcredit they usually borrow lot more than the amount of instalment for smoothing the daily need. Some people are even taking credit from the MFIs and lending the money in higher interest to others. About 60% of the households were found still indebt to the local money lenders.

Two main reasons were found for this. Firstly, if the client invests the whole amount of microcredit in a long term project (like cattle or poultry) they

can't pay instalment during the first months as they don't get any profit during this time. Secondly, members of different MFIs have to have a certain amount of savings and spend time before they can receive credit. So when they need money in a short notice during a crisis they have to depend on the local money lenders. Usually they save a part of the microcredit to pay the instalment. However, many people are using microcredit to repay the loan taken from the local money lenders and avoiding the heavy interest.

4.6 Increase of tension and conflict in the community:

Sometimes friends, neighbour's or relative's accounts are used by others to take microcredit when they need money and do not have the eligibility of taking it from the MFIs. This is termed as forward lending. As the interest rate of microcredit is lower than the local money lenders people in such situation prefers to use this favour. However, situation gets complicated when the owner of the account needs money or the user fails to repay the loan in time. Two such incidents were observed where the user of the account was not able to pay the instalment and the owner was charged by the NGO workers. In both cases they had hot arguments and their relationship deteriorated.

While discussing about this it was found that community members frequently try to borrow money from neighbours when they face difficulty to pay the weekly instalment. As it is a very close community everyone knows about others financial condition. So, when someone denies lending money with having the ability to do so, it creates tension in their relationship. It also happens when the borrower neglects to return the loan. The amount of internal borrowing among the community members is not big but it happens

frequently and many cases it is responsible for degrading relationship.

4.7 Change in occupation:

There has been no significant change in the occupation of the people during the last five years. None has been able to be fully self-employed successfully. Some male members took initiative by buying rickshaw or van but during the study no one was found with ownership. According to them they had to sell it because they needed money urgently or they had accident and could not bear the repairment cost or it was stolen. However, families engaged in sharecropping are using microcredit to buy seeds, fertilizer and other inputs. Three families have also bought calf and goats which they plan to sell after rearing them for some month before the *Eid-Ul-Azha* festival when the price of cattle rises. They are doing this for several years as a side income. But they also said that they have to always remain cautious about the security of the cattle as they sometimes get stolen. They have to suffer a big loss if a calf gets stolen or dies and it is not easy to recover from that.

Women of several families have tried to raise poultry but the effort was not very successful. Two women were trying to raise chicken and duck but they were not very hopeful. Lack of security, selling them in time of hardship, and disease were identified as the main reasons why it was difficult to make a secure and sustainable income from poultry.

4.8 Change in the condition of women:

Microcredit is famous for creating women empowerment by providing them with income generating activities. Traditionally, unlike the local Bangalis, Shaotal women work side by side in the field with man when work is

available during the planting and harvesting seasons. But during the rest of the year they mostly have to remain at home while the man can get engaged in some other job like rickshaw pulling. So, besides working in the field there is not much scope for Shaotal women to earn money. However, the Shaotal women have more opportunity in decision making in their family than other local women. It can be explained by their historical role of working in the field with men. There was no significant change created by microcredit in the traditional occupational role of women in the study area. Only three families were found where the women have taken poultry and cattle rearing as a side income source. As the NGOs generally give loan to the women, their status has changed in the family. Though generally women are taking microcredit but it is mainly the men who are using it. Most of the women (26 families) stated that both their husbands and themselves take equal part in making decision about using the money. For the economic benefit their husbands are allowing them to spend time in joining the meetings and other activities with completing their regular household work. Being involved in awareness activities with making groups has made them aware of their rights and they are trying to stand against problem like physical torture (wife beating), childhood marriage drinking etc.

Before the introduction of microcredit in marriage bride price was given to the bride's family. Now, according to the villagers the bride's family has to pay dowry to the groom's. They somehow linked the availability of money to the people by microcredit with this. Though usually the men are in charge of the money and responsible for the instalment it is the women who get the blame and suffer the consequences when the family fails to pay instalment. Microcredit instalment is generally collected during the evening. But during

this time men usually spend their time in the nearby shops and tea stalls chatting or buying grocery. It is the women who face all the trouble from the instalment collector when they can't pay instalment. So, the women have to suffer even if the failure of payment occurs for the irresponsibility of their husbands.

4.9 View of NGO workers:

Several NGO workers of different NGOs expressed some interesting opinion on microcredit in the community. According to them, they get a poor salary in respect with the hard work they have to do like travelling around the villages to collect instalment during evening and night. If they fail to collect the money they have to pay it from their own pocket. So, sometimes they have to be rude towards the clients for collecting instalments. They mentioned that, some people take microcredit like a donation and think that it is possible to getaway without repaying it by making excuses. When it was mentioned about the use of microcredit by clients they said that they are aware that sometimes it is not used for income generating activities rather for household needs or other purposes. But still they can't make them (clients) use it in a way that is not considered priority by the clients. Apart from this, they have an official target amount of loan that they have to distribute in a certain period of time. Therefore they cannot be very strict about this. They also identified that very poor clients sometimes lack the urge to break free from their condition and are satisfied with very little. They all mentioned that there was overall gradual economical development in the community and people are learning to use microcredit more efficiently.

4.10 Families not taking microcredit:

Two households were found who were not involved with microcredit. Both of them were categorized among the five poorest households in the community. One household comprised of husband and wife aged 62 and 50 respectively. According to them they had to suffer a lot by taking credit from the NGOs and the local money lenders for the marriage of their two daughters. Now after a lot of struggle they have repaid the loan and were not interested in taking credit anymore. When asked about the reason they replied, they did not have any profitable source to invest the money and if they take the loan it gradually gets absorbed in the household expenditure. After that it becomes a big burden for them to pay it back. Though during the *monga* season it is hard to survive without loan, they said they prefer to suffer rather than taking microcredit.

The other house hold is also comprised of only husband and wife but very young, 24 and 18, said that they were so poor that no one wants to give them credit. They share a small place with the husband's father and do not have any material asset beside some pots and plates. They are also interested in taking microcredit but do not have any specific plan to use it. They said their options are small to use the money. They can not buy rickshaw, van or live stock as they do not have any secure place to keep them.

4.11 Accepted poverty:

“We are day labourers; we are not habituated with saving money”
(Fhulchan, November2007, Bel-amlā).

Traditionally people of this community have been living a life of working mostly as day labourers. They were not habituated with saving and investing

money and accustomed with the life of hardship. Though the NGOs try to motivate them it is not easy to break this psychological construction. It seems like that they have accepted their condition and trying to be comfortable in this situation. Very often I have heard people saying ‘we are poor tribal people, what can we do?’ or ‘it is our fate (*kopal*) to suffer’ to describe their helplessness. Most of them are trying hard just to survive and thinking about not more than today and tomorrow.

Two families in the neighbouring community left their home for being unable to repay the loan. ‘These families were very poor and they were so badly indebt that there was no chance that they could repay them, I was told by Saju. “Their houses were built in a government land and they did not have much to sell. They were facing constant threat from the NGOs as well as from the local money lender”- he also informed me.

4.12 Two occasions:

I have witnessed two occasions when two households of the community were facing the consequences for not being able to pay the weekly instalment. In one occasion, while I was discussing about the economical change that they had with a family, I saw NGO workers scolding and using very bad language with a woman of the adjacent house who was unable to pay the weekly instalment for that week. The husband was intentionally absent, as he was expecting them. As a result the full wrath of the NGO workers had to be faced by the women. Though I was just sitting beside they took no notice of me (they knew about my study) and went on with their attitude.

In another occasion a household failed to pay instalment consecutively for several weeks. One day I came to know that NGO workers had taken away some of their household utensils (cooking pots and plates) and told them that they will have to pay the due instalments to get those back. The family had to take loan in high interest from local money lender to get out of this trouble. In another occasion I witnessed the local moneylender's employs were removing the tin sheets from the roof of Fhulchan's house. He borrowed 3000 taka about six months ago and was not able to pay the monthly instalment for three months. He said to me that he had to take a lot of loan from both NGOs and the local money lender to maintain his family during the *monga* season and for his wife's illness. Though now both of them are working it is hard to pay the weekly instalment of microcredit. He tried to pay back the money borrowed from the local money lender but was not able to take microcredit from other NGOs because he did not have enough savings with them.

4.13 Problems identified by clients:

The people of the community identified the lack of job more than problems with money as the main problem. They said that it is not always possible to use microcredit for income generating activities as they need money to buy food or medicine. There is also risk in buying rickshaw or livestock with microcredit (which the NGOs generally want) because these often get stolen. As a result, they have to get more credit to repay the former credit and gradually get dependent on it. They agreed that they are eating better after the initiation of microcredit and do not have to starve during the *monga* season like before. But they are not sure if it is actually possible to get free from poverty by using microcredit as it is not helping them much to increase

their income or become self-employed. According to them what they all needed first is a regular fixed income job by which they can secure their survival through out the whole year. They proposed establishing a factory or such other job providing opportunity in the locality for this.

4.14 Change in social status:

The people of this community were neglected and discriminated for two reasons. Firstly, as they are extremely poor and secondly, they are *adibashi* people. For the lack of education and awareness they were deprived of the general facilities provided by the government. Microcredit is helping them to get united and come out from their isolated environment. Though they have not been able to make any significant change in their economic condition by microcredit, they are getting more connected with the outside world by the process. They are also getting benefited by the additional programmes like children and adult education, health awareness, social awareness against drinking, early marriage etc. This is helping them to break out from their traditional shy and illiterate image and they are getting accepted with more respect by the Bengali Muslims majority. Inside the community the households which have made economic progress are now being treated differently than before. They are gradually gaining higher status in the community. It is reflected by the importance given to their presence and opinion in the group meetings, settling disputes, planning religious festivals etc. Though there is no formal leadership in the community the affluent households are getting priority in decision making about the community.

Chapter Five

5.1 Conclusion and analysis:

It can be concluded from the data that microcredit has brought some positive changes in the life of these people, mostly in terms of food consumption and other expenditure. It has given more 'options' to the extreme poor people's lives and they are trying to adapt with these options and changes to use them successfully in developing their living condition. I think, the most important change has occurred by creating awareness in various sectors of their lives and these changes are related directly or indirectly with microcredit. Almost all the children are attending primary school and people are more serious about their education. Similar development can also be seen in health sector like drinking water from tube well, using sanitary latrine, vaccination of children etc. These changes have occurred not only by creating awareness by the development organizations but also for their various supports and facilities provided in these sectors. However, it can not be said that microcredit has created similar development in financial condition of all the people. Except the four families who have permanent income during the whole year, others still have not been able to make stable financial base from where they can start for gradual development. There was mention of two families who left the village for being unable to pay the loan. Though microcredit has smoothed living expense and food consumption it has not been able to create a stable financial security. From this perspective it can be said that microcredit has failed to serve its main purpose for these people. Moreover, many claimed that their situation has deteriorated since they

started taking microcredit. They are now suffering from chronic debt and have to remain worried all the time about weekly instalment. Interestingly, people in the community use terminology like '*kete ber hoye asha*' meaning 'cut free from' (as like from a net) referring to the successful repayment of the loan.

People are using microcredit to pay loan from the traditional money lenders and at the same time they are also taking loan from the local traditional money lenders to pay instalment of the microcredit. It was found that about sixty percent of the households are in debt to the local money lenders. This has created a circle among the clients, microcredit NGOs, and the local money lenders. The clients have developed a loan dependent living pattern. Many clients asserted that they do not want to take microcredit unless they fall in problem and they will try not to take any credit after repaying the existing loan. However, it was also found that some households take credit just as soon as they have enough primary savings (which makes them eligible for taking loan) without making any prior plan to use the money for income generation.

The distinct nature of the poverty of the extreme poor people is their vulnerable condition and insecurity in life. Villagers said that they used to starve when they did not have any money to buy food, now they are using microcredit to face these situations. From this point their life has become less vulnerable to hunger or disease but they have become trapped in loan. As most of these extremely poor families have no regular permanent income or savings and live from day to day basis it is not easy for them to use microcredit in the desired way. Very often they fall in difficult situations like

illness and food shortage when it becomes priority to solve these problems anyhow. They have to take microcredit or sell the investment of microcredit (rickshaw, cattle etc.) to meet the needs in these situations. All the households have faced such situations from which it was very hard for them to recover. In case if their microcredit investment (like rickshaw or cattle) gets stolen or dies they have to suffer a lot to recover from the loss. “For them the loss of a chicken is like the loss of a cow to a farmer” – an NGO worker asserted.

Besides the lack of permanent income source there is also lack of skill in using capital successfully. It has to be kept in mind that these people are living as agricultural labourer for a long time and they have long established living pattern. With this they also have a cultural and psychological construction about their life and ambition. The biggest problem of their life is hunger and they are worried more about today than tomorrow. They try to use any kind of opportunity to meet these problems first. Besides, changing from the life of a wage labourer to a self employed entrepreneur requires ambition and skill. Specially the management of the credit has to be learnt and it requires time to do that. While trying to learn it is easy to make mistakes and suffer the consequences for the people who are not oriented with such kind of practises. Thus microcredit, a powerful tool of development, can bring the opposite of the desired result.

Appendix:

Semi structured questionnaires for the clients:

1. Do you (*'you' refers to the household*) have any experience with microcredit? If yes, how long have you been using it?
2. From how many NGOs have you taken microcredit currently?
3. What is the total amount of microcredit you have you taken so far?
4. What did you do with the money?
5. Did you have any plan to use the money before taking it?
6. Was there any change that you had to make in your plan?
7. What is the current due?
8. Will you take more credit after repaying the current due?
9. How do you plan to pay this due?
10. How do you see the difference in your life after you started using microcredit?
11. What are the improvements that have taken place in your family?
12. What are the problems that you have faced for using microcredit?
13. What happens if you fail to pay the weekly instalment?
14. what is your future plan to develop your economic condition?

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