

# Microfinance in Bangladesh

A Tool for Women Empowerment

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## Bangladesh

Bangladesh emerged as an independent and sovereign country in 1971 following a nine month war of liberation. It is one of the largest deltas derives from large rivers flowing from the Himalayas to the bay of Bengal. Bangladesh with a total area of 147,570 sq km. has a population of about 154.7million, making it one of the most densely populated countries in the world. Women roughly constitute half of its population.

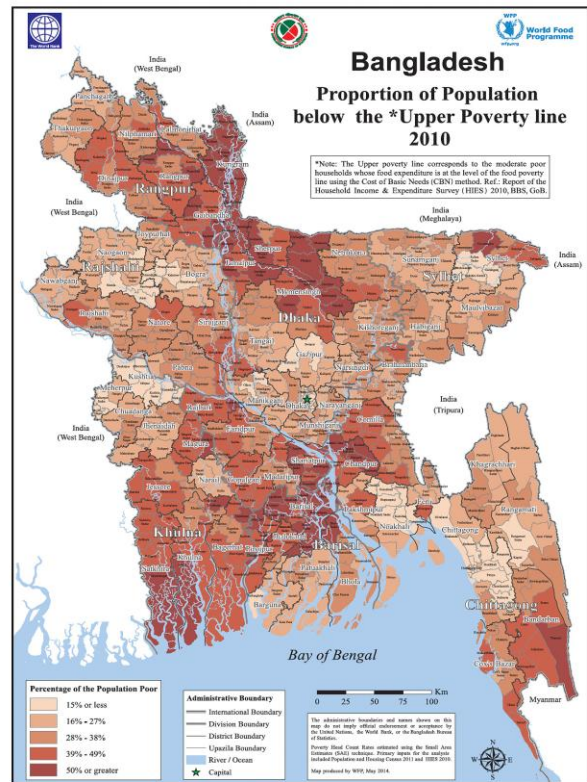
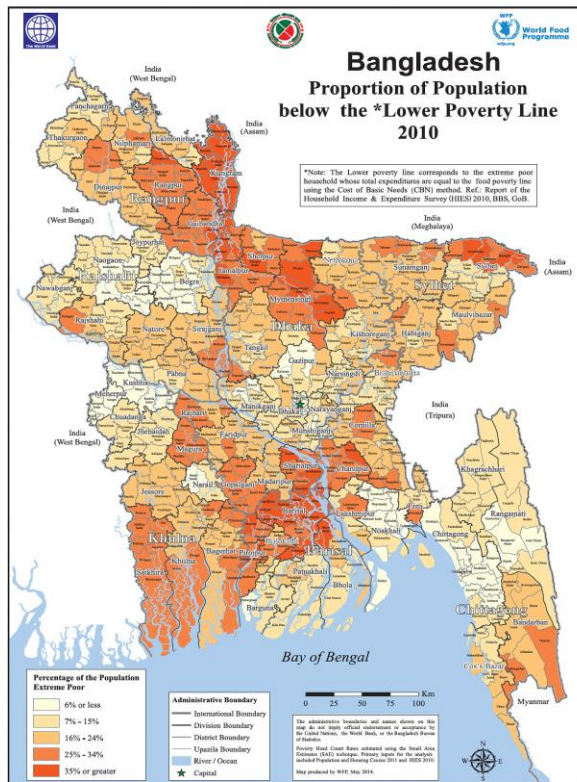
Bangladesh has shown impressive progress in recent times in social indicators i.e., increasing equitable access in education, gender parity in primary and secondary enrolment, reducing child mortality and improving maternal health. Performance in halting communicable disease is satisfactory. Regarding environmental sustainability, the performance is much lower. At present there is only 13% land covered by trees.

Bangladesh is repeatedly affected by natural disasters like floods and cyclones, resulting much of the country routinely inundated during the summer monsoon season. With the effect of frequent natural disasters and calamities, a large number of people particularly in the riverside, coastal, areas are poor, landless and marginalized due to river erosion, flash floods, and cyclones. While the northern part of the country is affected by droughts. 25.6% people live below the poverty line with minimum access to health, hygiene and other basic services. Around 40% of its people are still illiterate.

To bring real peace to the landless, marginal and small farmers, financial assistance is proved to be as one of the effective tools primarily for achieving sustainable change in their lives. That is the idea behind emerging the micro financial institutions in the country. Many NGOs are enlisted and playing a major role in micro-financing and consider it as an intervention to eradicate poverty as means for sustainable development.

### **Map (showing poverty levels):**

While Bangladesh has made impressive economic and social gains over the past decade, poverty levels continue to be a challenge with around 25.6% percent of people living below the poverty line in 2013. These maps highlight that poverty varies considerably showing inequalities among people in different geographical locations.



## Concept of Microfinance

Microfinance started with the belief that it should be accepted as a human right and offered to poor, marginal farmers and small entrepreneurs are collateral free as an important instrument in the struggle against poverty. About three decades ago, Founder of Grameen Bank, Prof. Mohammed Yunus pioneered microfinance, as the innovative banking program for the poor people especially for the women who are deprived of the financial services of the conventional banks with small loans they use to launch business and lift their families out of poverty. The objectives of microfinance are:

- Extend banking facilities to poor men and women.
- Eliminate the exploitation of the poor by money lenders.
- Create opportunities for self-employment for the vast multitude of unemployed people in rural Bangladesh.

## Types of microfinance services

Microfinance services can be categorized into six broad groups: i) general microfinance for small-scale self employment based activities, ii) microenterprise loans, iii) loans for ultra poor, iv) agricultural loans, v) seasonal loans, and vi) loans for disaster management.

## Microfinance in Bangladesh

In Bangladesh the people living below poverty line and the poor people with lower income remain out of any formal institutional financial services. This financial state has made microfinance services almost a sole option for assisting the poor effectively to improve their living status and livelihoods significantly. Microfinance has been found to be to benefit the poor and the marginalized people. Initially microfinance to poor people without any financial security had appeared to be an impossible idea. But now microfinance is implemented by hundreds of NGOs/MFIs, state-owned commercial banks, private commercial banks, and specialized programs of some ministries of Bangladesh government. In fact, most of the NGOs, engaged in development have now

incorporated microfinance as one of their core program component as an strong and viable option in uprooting the poverty.

In the backdrop of global recession and over-indebtedness crisis, Bangladesh's microfinance sector shows strong resilience and continues to contribute towards enhancement of macroeconomic growth. Bangladesh microfinance sector is mature now and its assets constitute around 3 percent of GDP.

Considering the growth of increasing number of NGOs and Micro Finance Institute (MFIs), the Government of Bangladesh under the "Microfinance Regulatory Authority Act 2006" established Microfinance Regulatory Authority (MRA) to promote and foster sustainable development of microfinance sector through creating an enabling environment for NGO-MFIs in Bangladesh. MRA is the central body to monitor and supervise microfinance operations of NGO-MFIs. License from the Authority is mandatory to operate microfinance operations in Bangladesh as an NGO.

### Microfinance Clients

Typical microfinance clients are poor and low-income people that do not have access to other formal financial institutions. Microfinance clients are often self-employed, household-based entrepreneurs. Most of the microfinance recipients are women who use microfinance for better management of their households, finance and to engage in small retail shops, street vending, artisanal manufacture, and various income generating activities such as food processing and small business.

### Impact of microfinance:

Microfinance provides a range of benefits that poor households highly value including long-term increases in income and consumption. Access to microfinance helps the poor to smooth cash flows. Microfinance makes it easier to manage shocks like sickness of a wage earner, theft, or natural disasters. The poor use microfinance to build assets such as buying land, which gives them future security. Women participants in microfinance programs often experience important self-empowerment

Engagement in microfinance increases the mobilization of women in a massive scale. Hundreds and thousands of women gather together in the meeting on regular basis allowing them coming out of the age old custom and social barriers. Now women can share their life and living everyday with fellow members engaged in microfinance. Increased mobility of women in microfinance, paved the way for women community to participate in other social sectors including the garments manufacturing sectors without any barrier.

There are arguments on whether microfinance participants in Bangladesh are trapped in poverty and debt, as many critics have argued in recent years. Analysis of data from a long panel survey over a 20-year period confirms this is not the case. Rather the results of the analysis suggested that the microfinance recipients' derive a variety of benefits from microfinance. It helps them to earn income and consume more, accumulate assets, invest in children's schooling, and be lifted out of poverty.

### Challenges

Most microfinance clients fall near the poverty line, both above and below. Households in the poorest 10% of the population, including the destitute, are not traditional microfinance clients because they lack stable cash flows to repay loans.

Financial uncertainty chases the poor at all times and for this, they can't lead a stable and peaceful life which adversely affects in attaining success in their business and income generating activities. This is a big hurdle for the poor to come out of poverty trap and is equally a challenge for the MFIs to protect them.

Microfinance is operated in areas that are remote or have low population density, making lending more expensive. This is often why traditional banks tend to stay away from such areas. If an MFI wants to operate sustainably, it has to price its loans high enough to cover all its costs.

Although microfinance interest rates can be legitimately high, inefficient operations can make them higher than necessary. As the microfinance market matures in a given country, administrative costs usually drop as managers learn from experience and in some cases because competition forces lower pricing and greater efficiency.

Everyone does not utilize loans productively, and there is a risk of falling into over-indebtedness. By means of microfinance alone poverty can not be eliminated. But in the continuing efforts to achieve it, micro-finance must play a major part.

#### Microfinance and Women Empowerment- Stories of Gono Unnayan Prochesta (GUP)

Gono Unnayan Prochesta (GUP) in English, Peoples Development Efforts, established in 1973 aiming to develop as a self reliant organization, is committed to establish equity, justice, peace and prosperity through undertaking sustainable and environment-friendly programs using modern technologies and integrating indigenous culture and traditions.

GUP works through an integrated approach of development. Having Gender Equity one of its core values, GUP sees women as a key factor of bringing changes and works towards the full realization of the women's vital role and needs, both within the family, and the community as a whole. In 1978, GUP initiated Women and Children Development Program and started work giving emphasis on exploring the potentialities of the women folk who form about half of the population but always are undermined in the society.

GUP initiated Cooperative and Credit Program (CCP) as well for creation of employment and income generation opportunities that ultimately play a vital role in poverty alleviation and empowerment of poor, marginalized, and especially the women community. The main program components of CCP are: Rural Micro Microfinance, Micro Enterprise (ME), Ultra Poor Program (UPP), Seasonal Loan (SL), Agricultural Sector Micro-microfinance (ASM), Micro Finance Technical Support Project (MFTS) and ENRICH program. GUP offers various kinds of vocational and skill development trainings to the poor and marginalized members of the community.

At present Cooperative and Credit program is being operated in 475 villages of 5 districts with 112 staff members. The number of group is now 1112 comprising total 19,926 members. The cumulative savings of the group members is Tk. 6, 69, 49,800 (Six crore sixty nine lac and forty nine thousand and eight hundred) only. Most of the service recipients are women who use microfinance for better management of their households, and engage in various income generating activities, such as, food processing, tailoring, cow rearing, beeffattening, goat rearing, mini hatchery, rice trading, other trading, paddy cultivation, agriculture products, small business, fish trading, shop keeping, van pulling, carpentry, firewood trading, furniture business, etc.

The Cooperative and Credit Program of GUP have been found to be very helpful and effective to the beneficiaries for developing entrepreneurship and help sustained livelihood efforts. The case studies on four women group members mentioned below provide examples how the program created livelihood options and made positive changes in their lives. The case studies also shows that due to this program; it is not only access to microfinance but also other personal characteristics like traits of leadership, initiative and drive, entrepreneurship, and special skills are developed. The flexible microfinance policy of GUP also contributed to the success of the group members. Some examples of such cases are described below:



## CASE -1: Success of Alachi Begum in Bamboo and Cane Craft



My name is Alachi Begum. I live in Jaduarchar- a village under Shibchar Upazila of Madaripur district with my husband Kalam Akand and three children. Our family was financially insolvent from the only earning of my husband as a van puller. Due to river erosion we lost our home and would live on others land. Starving was a common practice in our family.

In March 2003, I became a member of Jaduarchar Projapoti Mohila Samity organized by Gono Unnayan Prochesta under its Microfinance program. I began to deposit weekly savings regularly and initially took loan of Tk. 10,000/- (Ten thousand only) and started a business on bamboo handicrafts.

Later, I got involved with Micro Enterprise (ME) program initiated by GUP and took loan amounting to Tk. 40,000/- (forty thousand only) for expanding my bamboo & cane crafts business. My business is now running smoothly and it's becoming bigger day by day. Meanwhile, my husband gave up van pulling and joined with me fulltime in running our family business.

For the 3<sup>rd</sup> time I took loan of Tk. 50000/ (Fifty Thousand only) and bought an improved variety of cow. Alongside, rearing cows, running the business on bamboo crafts, I also started cultivating vegetables. I also hire labor to work in our family business. From the loan money and the surplus from selling of handicrafts, milk and agricultural products I bought 40 decimal of cultivable land and constructed a tin shed dwelling house. After long hard work finally I have materialized my aspiration to have our own house.

We are now economically solvent. Our 3 children are now going to schools. Our family is now leading a happy life. My neighbors are encouraged to start similar kind of activities. I am grateful to GUP for the support in achieving such a success in my endeavor. Now the neighboring people consider us as a model in the community. My neighbors start to follow me, they ask suggestions from me.

Now I'm living a happy life with my husband and three kids-though the initial period of my married life was not as easy as it is now.

#### **CASE-2: Cattle Rearing Changed the Life of Bilkis Akhter**



I am Bilkis Akhter. I live with my husband and three children in Kanpur village of Shariatpur District. My husband Azizul Dhali was a day labor. We had a tiny house and only 1 bigha arable land. The income from the land was inadequate to meet our day to day needs.

Due to financial hardship our sons couldn't continue their schooling. Our eldest son dropped out his school while studying in class eight and joined us to assist our family needs. Our second son discontinued schooling while studying in class seven and turned into a day labor. As such my husband and our two sons tried to maintain family by selling day labor. One day I came to know about GUP from the neighbors. At one stage I got enrolled as member of Kuarpur Lucky Womens' Samity and started savings regularly. I attended training from GUP on cattle rearing and received a loan of Tk. 50,000 for the first time and bought a milking cow and started collecting 4/5 liters milk a day and sell it to the neighbors at a good price. I took loan of Tk. 75, 000/ for the second time and bought another cow which gave birth a calf after 5/6 months. Both the cows now give about 6/7 liters of milk a day. By the sale proceed of milk I repaired my house and brought economic solvency in our family. Our eldest son and second son are engaged in our family cow rearing business

My youngest son is now studying in higher secondary level. I hope to make our youngest son to continue higher education. I also constructed a tin-shed dwelling house to accommodate the members of the family. We purchased a piece of cultivable land also. Cattle rearing were the source of making our fortune. Now we are happy with our family. Our social acceptability has been increased. I am grateful to Gono Unnayan Prochesta for the changes I made through microfinance.

*"Now I am happy...my children are all established...neighbors come to me for suggestions."*

*Bilkis Akhter*



### CASE-3: Shanti lata - A Successful Integrated Farmer



Shantilata a housewife lives in Roghunathpur union of Gopalganj Sadar thana of Gopalganj district. Her husband's is Ramendranath Boshu. They had no other property except a dwelling house. Due to poverty they couldn't send their children's to school. Shantilata became a member of Roghunathpur Boshubari Mohila Samiti organized by Gono Unnayan Prochesta (GUP). On becoming a member of Samity. She started depositing weekly savings regularly and took loan and bought a cow. She repaid the loan timely on installment basis and took loan for the 2nd time and bought another cow. Both the cows gave birth two calves within one year. When these calves were grown up, she sold them and took lease of 1 bigha of cultivable land. She then cultivated IRRI paddy in the land and received a good yield. Gradually through the income, she bought 1 bigha land. In 2003 Shantilata got involved with Microfinance Technical Service (MFTS) Program and received loan amounting to Tk. 40,000/- (forty thousand) and bought an improved variety cow and received training on cow rearing.

Living from hand to mouth, gradually Shantilata and her husband engaged fulltime in their farming farm and now cultivate land and rear the cattle. They also excavated a fish pond in their newly purchased land and started fish cultivation. Now they prepare fish food from the cow dung compost.

Subsequently, they bought 2 bighas of land from the money they took loan and from the income of fish pond. Again they bought 1 bigha of land with the loan and income from the sale of fish. In the newly purchased land this time they have expanded the fish pond. In addition to the investment in fish pond they have also constructed a brick wall tin-shed dwelling house. Attached to the house they have also installed deep tubewell, constructed a semi-pucca toilet.

In 2013 the family took loan amounting of Tk. 1, 00,000/- (One lac only) from GUP microfinance program. This time they bought a modern machine for making guti urea fertilizer and a rice husking machine with the loan amount and their income from agricultural products. Now they can fulfill their own requirement as well as the needs of the farmer of Roghunathpur village by the fertilizer they now produce. Having all these success, they are now considered as model of successful vegetable and fish farmer. The success of Shantilata's family is no longer now confined in economic field, her husband Ramendranath Boshu was elected as a Union Parishad member (local govt. representative). Now their social status has been uplifted. In 2010 and 2012 they have sent

their two sons to Singapore for employment and arranged marriage for her only daughter. The family is now free from all the burdens and is enjoying a life as model for others in the community they live.

*"With GUP's support I am living a life exceeding my dream....."  
Shanti Lata*

#### **CASE-4 : Success of Jabeda Begum in small business**

Jabeda Begum hails from Boulgram village of Khalia Union under Rajoir Upazila of Madaripur district. Her husband Rafez Bepari is a day labor. Jabeda has 3 sons and 3 daughters. Her husband couldn't afford to maintain such a big family with his lone income only by selling labor. The family used to live hand to mouth. Once he left his village and went to Khulna for searching employment.

He got involved in a factory of food item- Sonpapri (one kind of sweetened food). The owner of the factory provided him with meal 3 times a day and a monthly wage of Tk. 1,000. Rafez had been working as a labor in the Sonpapri making factory. After a couple of years he acquired the required skill of making Sonpapri and returned back home as a skilled worker.

Despite having required skills, he didn't have money to purchase equipment and raw materials for the production of Sonpapri. He shared the matter with his wife and decided seek GUP's microfinance support to run a small business. Jabeda then discussed the matter with the concerned GUP microfinance worker and was enlisted as a member of Boulgram Womens' group and started weekly savings regularly.

Two months after enlistment, Jabeda and her husband received a loan and purchased necessary equipments for making Sonpapri. Accordingly they started making Sonpapri and her husband started selling those in the nearby markets, schools and neighborhoods. In the meantime Jabeda acquired the skill of preparing Sonpapri too from her husband. The demand of the fancy food Sonpapri item was growing gradually. After repaying back the loan by installment she took loan and invested further in their small business. Her eldest son was engaged in day laboring due to financial hardship. Their family business is running well. Jabeda started accumulating savings and keeping some money in hand after paying back the loan. After paying back third loan she received forth loan and bought a cow. As her business was boosting up enabling her to send her second son to Malaysia for employment. She also sent her youngest son to Dhaka for acquiring the skill of roof tiles fitting. At the same time she bought a piece of 5 katha land and arranged marriage for her three daughters. Now she is well off and her acceptability has been established in the community.

Now Jabeda's family own a dwelling house, landed property and cattle's. The family now earns Tk. 30,000 per month from the business of Sonpapri. Now Jabeda is thinking to send her youngest son to abroad. GUP microfinance was the key to the success of Jabedas family.

*"We earn Tk 30,000 per month from our business...without support of GUP it could never be possible."*

*-Jabeda Begum*





#### Concluding Remarks:

In the past thirty years, microfinance has spread to every continent and benefited millions of people, proving to be an important liberating force in societies where women in particular have to struggle against repressive social and economic conditions. Economic growth and political democracy cannot achieve their full potential unless the female half of humanity participates on an equal footing with the male. Women were initially given equal access to the schemes, and proved not only reliable borrowers but astute entrepreneurs. As a result, they have raised their status, lessened their dependency on their husbands and improved their homes and the nutritional standards of their children. Since Women are the major recipients of microfinance; therefore, it has to be made more women friendly to achieve the desired degree of women's empowerment.

So far more attempts have been to make **microfinance more poor-friendly**. Now it is time to give more efforts to make it **more women friendly**, efficient and suitable as most of the service recipients are women who use microfinance for better management of their households, and engage in various income generating activities.

To achieve the desired degree of women's empowerment, special attention needs to be given to develop skills for women's entrepreneurs'/leadership development.

Gender development training be organized by the NGOs/MFIs for women borrowers and their male counterparts aiming to improve mutual understanding and increasing harmony in the microfinance borrower families.