BANGLADESH A SHINING LIGHT

Traditional economics insists on that economic development being the key driver of financial systems. Thus, less developed countries (LCDs) had to develop before the financial systems could.

Professor Muhammad Yunus

Since the 1970s this view has been challenged by some of the most revolutionary thinkers of the 21st centaury. The successful pioneer in this field is Bangladeshi academic Professor Muhammad Yunus who upturned such thinking which lead to the development of microfinance.

Though the definition of microfinance is illusive it can be thought of as the aggregation of microcredit. Microcerdit is defined as 'the extension of small loans to entrepreneurs too poor to qualify for traditional bank loans. In developing countries especially, microcredit enables very poor people to engage in self-employment projects that generate income. Microcerdit is the most important part of the microfinance field, which can comprise all other financial products such as micro-insurance, savings or others.'[1]

Microfinance is a powerful tool to fight against poverty. It is not just merely a loan facility but a provider of financial services and products that the poor desperately need. Microfinance should be about building permanent self sufficient local financial institutions and should be complemented by private capital. It should not merely be a government initiative. It is essential in supporting lower income group to be self sufficient. Though microfinance is an effective method of eradicating poverty it is not always the answer.

Microfinance was first introduced in Bangladesh during the 1950s in which subsidised credit programs targeted specific communities. Unfortunately the funds did not always reach the poor but instead ended up in the hands of the better off Bangladeshi farmers. These funds had a dismal repayment schedule and as a consequence banks suffered a large erosion of capital. By learning from the mistakes in the 1950s the program was given another opportunity in the 1970s when Professor

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[1] http://define.runturl.com/microfinance

Muhammad Yunus, extended tiny loans to groups of women in Zobra village, Bangladesh (on the outskirts of Chittagong), concentrating on a group lending model rather than an individual lending model. It was characterised by solidarity group lending in which every group member guaranteed the repayment of all members. This was a dramatic step in the evolution of microfinance and revolutionised financial systems in developing countries. The success in the 1970s brought new found hope for developing financial systems. Although the success in the 1970s proved a critical step in achieving microfinance it was still on a very small scale. It was not until the 1980s-1990s when large scale investments into microfinance began. Two main features allowed microfinance institutions to achieve long term sustainability; high repayment (above 97%) and cost recovery interest rates. Today microfinance provided by Grameen Bank is not just an extension of tiny loans to poor clients, but an extension of financial services which typically were not provided. With its widespread success in many countries (specially Bangladesh) microfinance has had a great deal of impact including the eradication of poverty, promoting children's education, improving health outcomes for women and children and the empowerment of women to name a few. Total membership reached to 5.8 million families, i.e., over 29 million people are under Grameen Bank's umbrella. It accounts almost one and half times population of Australia. Among the members, 3 million families are out of poverty currently. 100% children from Grameen Bank member families are attending

primary education, of which about 10,000 are already in higher studies in the universities, medical schools, engineering colleges and other educational institutions. 631,375 houses are built with Grameen's Housing Loan and about 200,000 'Grameen Phones' are held and used by Grameen women members as vehicle of communication and trade[2]. These outcomes would have to be some of the hardest social issues that developing countries try to achieve.

In Bangladesh the eradication of poverty is an essential step towards development. Grameen Bank has helped poor people to protect, diversify and increase their sources of income. It helps the poor against extreme vulnerability and helps them to smoothen income fluctuations. BRAC found that those who participated in the program for more than four years increased their household spending by 28% and their assets increased by 112%. By having an institution where these services are available the

[2] Nazrul Islam, 17/5/2006

poor are less venerable to adverse events. It was also found that consumption of goods and services by female members of the family increased by 18%. Most importantly 54% of client families are coming out of poverty and managed to stay there. Some of the Grameen Bank members can finance small projects from their equity and this increase in the flow of funds increased wage rates by over 21%. So it can be noted that microfinance has definitly had some impact on eradicating poverty.

Another use for funds was that the poor invest in their children's education. This seems to be a major priority and the children are likely to go to school for longer and have a lower drop out rate. BRAC found microfinanced household children aged between 11-14 basic competency in reading, writing, and arithmetic increased from 12% to 24% (World Bank, 1995). Just as interesting was the fact that 100% microfinanced household girls all had some sort of education while this figure is 60% in

non-microfinanced households. In contrast, 81% of microfinanced boys had some sort of education compared to only 54% in non-financed families (World Bank, 1998). So as the evidence shown above microfinance has had a great deal of impact on the education of the people and children in communities.

Illness is usually the most important crises for poor families, thus, the improvement of health outcomes for women and children is critical. Illness is often the main reason for default on loans. It has been observed that microfinanced households have better nutrition, health practices and health outcomes. This usually leads to better living conditions and preventative health care. A World Bank study found that an increase of 10% in microfinance lead to an increase in mid-arm circumference for both the males and females by 6.3%. Also Mizanur Rahman found the use of contraception in microfinance households is 59% in contrast to 43% for non-microfinanced households.

Finally, the empowering of women is one of the greatest achievements of microfinance. The relative success of microfinance by Grameen Bank in Bangladesh is predominantly due to women as their default rate is found to be relatively lower than men. Women seem to be more financially responsible than men as well as investing those funds into more productive ventures eg. education of children, savings, investing in financial assets etc. A survey in Bangladesh found that there is a significant correlation between the length of involvement in the microfinance program and empowerment of women in the family structure, increase in self worth and increased status in the community.

This empowerment leads to the increase in physical mobility, ownership and control over productive assets including homestead land, involvement in decision making and political and legal awareness. The study also found that initially there was an increase in domestic violence, however this reduced in time as families became more accepting of the situation.

As we can see Grameen Bank microfinance has allowed the poor to increase their household income, build assets and reduce their vulnerability to crisis. This leads to better nutrition and improved health outcomes. It also allows poor people to save for the future. Women members are becoming more confident and assertive in the household business decision making and this has reduced gender inequalities. It is one of the main ingredients to development. It should be noted that these are not isolated effects. They have significant spillover effects on other communities around.

It should be clear that microfinance is not always the answer and there are some impediments to microfinance. Some constraints to microfinance institution (MFI) commercialisation specially in developing countries include the widespread negative perception of commercialisation, the pervasively weak MFI capacity, the lack of clarity in MFI missions, weak ownership and governance, the low level of technical understanding of banking and finance industry and the lack of transparency of accounts. Also a large hurdle to overcome in developing countries is the legal and regulatory framework that exists in these countries. Usually it is characterised by inadequate secured transactions framework, absence of a credit bureau of microcredit, lack of supportive legal and regulatory framework, insufficient institutional capacity of Bangladeshi banks and grants that are 'soft' hinder commercialisation. Though these are substantial impediments to microfinance the most important problem is the sustainability of such programs. There is no use of retrieving 5 people above the poverty line if 10 people fall below it. With better government policies and initiative these problem are being addressed and Grameen Bank has successfully progressed towards new development and initiatives to eradicate poverty of the country. In Bangladesh 65% of people live on less than $1 a day and own no land. Yet the returns from Grameen Bank in 2000 from microfinance were a remarkable 4.3% and the default rate was close to nil.

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