

Chars Livelihoods Programme (CLP)

Microfinance on the Chars:

A Summary of the Microfinance Situation and Needs on the Chars

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1. Background

The Chars Livelihoods Programme (CLP) conducted a survey during October – December 2011 to assess the microfinance (MF) situation and needs on the *chars* of North West Bangladesh. The purpose of this study is to propose options for improving access to MF on the *chars* and recommend suitable credit and other MF options for the extreme poor and poor households, with specific reference to households recently involved in the CLP. This document summarises the main report¹.

The research comprised three components:

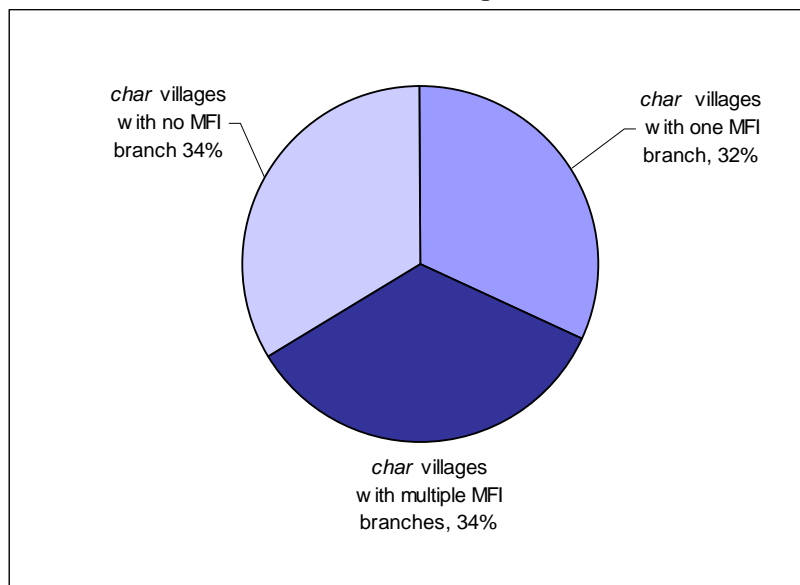
1. Identification of the location and key details of all MF branches operating in the *chars* in Kurigram, Gaibandha, Lalmonirhat, Jamalpur, Nilphamari, Pabna, Tangail and Rangpur;
2. Interviews with staff and clients of selected MF products offered to *char* dwellers;
3. An evaluation of three seasonal, *char* specific loan products piloted by the CLP in 2008.

2. Gaps in Microfinance Provision on the Chars

2.1 Geographic Coverage

The research showed that the number of MF branches operating on the *chars* is increasing, yet the services remain uneven and a very small proportion of the branches are located on the island *chars*. Usually microfinance institutions (MFIs) establish their branches on the mainland where the majority of their clientele are located; however these branches do offer MF services to *char* dwellers in island villages in their catchment area.

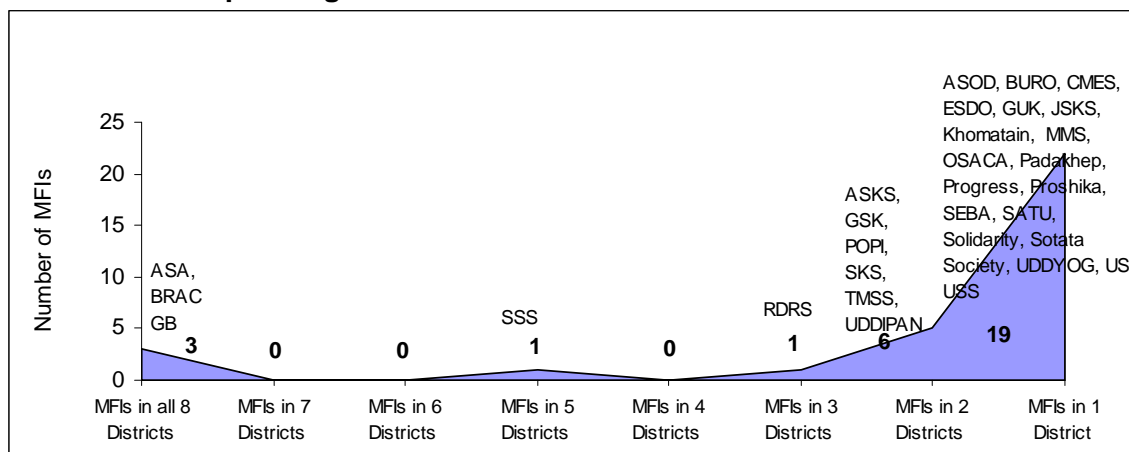
Chart 1: MFI's reach in the Char Villages



¹ The full report: Or-Rashid, H and Mclvor, N (2012). 'A Review of the Microfinance Situation and the Need for Innovative Products and Extended Services' is available on the CLP website: www.clp-bangladesh.org.

Overall MFIs are working in approximately two thirds of *char* villages, as shown in chart 1 but the number of clients living on the *chars* is limited². The MF provision is dominated by the three national MFIs ASA, BRAC and Grameen Bank, which work in all 8 districts surveyed, as shown in chart 2. 30 different MFIs and 275 branch offices were identified; the details of their locations and the services they offer are provided in a directory of MF services on the *chars*³.

Chart 2: MFI's Operating on the Chars



2.2 Targeting and Delivery

The primary target population of most of the MFIs on the *chars* and the adjacent mainland are the 'poor', which includes marginal farmers, sharecroppers, day labourers, and the people involved with other activities such as fishing, animal husbandry, small trading, rural transport and weaving. 79% of MFIs claimed to target the ultra-poor, however in practice the 'truly' ultra-poor are not taking loans from MFIs - as observed by the review team in their assessment of MFI clients in the CLP working areas. This was supported by interviews with MFI staff who confirmed that most MFIs consciously avoid enrolling the ultra-poor as they are considered risky borrowers. On the demand side, borrowers and potential clients reported their fear of their inability to repay weekly installments.

Credit options for the ultra-poor living on the *chars* do exist, but the extent of coverage is on a very small scale. One initiative to address seasonal and extreme poverty on the *chars* the Program Initiatives for Monga Eradication (PRIME) which was launched by Palli Karma-Sahayak Foundation (PKSF)⁴ in 2006. PRIME provides flexible microcredit to PRIME participants through PKSF partner organisations at an interest rate of 10% (flat) or less. The participants then undertake various income generating activities (IGAs) such as crop cultivation, livestock rearing and off-farm activities and repay the loan over a period of one year, participants also have access to an emergency loan if they need it. MF is just one component of this programme and PRIME's reach on the *chars* is very small.

² Details of the number of *char* clients under each branch were not possible to obtain given the constraints.

³ Or-Rashid, H and Mclvor, N (2012). 'Directory of MFIs and Baseline Survey Status of Microfinance Services on the Chars' Available at: www.clp-bangladesh.org.

⁴ PKSF is a government apex organisation with the mandate to alleviate poverty through generating employment and disburses funds to microfinance institutions who are its Partner Organisations (POs).

Other MF programmes aimed at the extreme poor include BRAC's 'Challenging the Frontier for Poverty Reduction – Targeting the Ultra-Poor' (CFPR/TUP), which involves skill training and asset transfer, and Grameen Bank's interest-free 'Beggar Loan'. Lastly, PKSF's Ultra Poor Programme (UPP) provides micro-credit at a low interest rate similar to PRIME, but excludes the other programme activities such as healthcare and education etc. Unlike on the mainland, remote *char* locations still lack access to MF and even in villages where MFIs operate, the 'truly' ultra-poor often cannot access credit.

3. Suitability of the Microfinance Products Currently Offered

The survey found that 'savings' and 'credit/ loans' are the two most common MF services offered by the 30 MFIs operating on the *chars*. Most of the MFIs offered 'mandatory savings', and 19 of the 30 MFIs also offered 'flexible' savings to *char* dwellers. The review team assessed the five most common loan products offered by five of the most prominent MFIs operating on the *chars* (annex 1). The team found:

1. DABI Loan (BRAC):

- A broad category of loans that BRAC offers to 'the poor'; excluding the 'ultra-poor' and more advanced 'enterprise' groups;
- 1 year loan duration at an interest rate of 27% (declining);
- Mainly targeted at people living on the mainland;
- DABI's standardised features are inappropriate for the *char* context.

2. Primary Loan (ASA):

- Designed with the mainland target population in mind;
- ASA has acquired efficiency and a comparative advantage in MF lending mechanism due to its simplified terms and conditions of the loan;
- Most of the loan features are similar to the loans of other mainstream MFIs.

3. General Loan (Grameen Bank):

- Greater presence on the island *chars* compared with the other national MFIs;
- Offers slightly lower interest rates than BRAC and ASA;
- Main features are similar the other general loans offered by mainstream MFIs and are inappropriate for the seasonality of the *char* context.

4. Ultra-poor Programme (UPP) (RDRS):

- Offers relatively low interest rates (20% declining) and does not charge a joining fee;
- The review team were unable to find very poor clients, and concluded that the loan may not be reaching the target group;
- 1 year loan duration was considered inappropriate for seasonal IGAs and the repayment was not flexible enough for the truly ultra-poor.

5. Rural microcredit (RMC) Loan (MMS):

- The largest of PKSF's loans in terms of the number of borrowers and disbursement;
- Overall customers and staff were satisfied but the weekly installments were considered by the review team to be too frequent;
- Changes could also be made to the loan size, to enable a large enough amount to be taken to ensure economic return.

The review team found little difference between the RMC and UPP loans, and that BRAC, ASA and Grameen Bank offered a general loan product with features that are not suitable for the seasonal cash flows of the *char* context. One significant change is that as of January 2012, BRAC has switched all of its loan repayments from weekly to monthly installments. To offer credit on the *chars*, more appropriate loan products specifically designed to meet the needs and the seasonal cash flows of the poor and extreme poor living on the *chars* are required.

4. Designing Char Specific Loan Products

In 2008 the CLP piloted three seasonal, *char* specific loan products through three implementing organisations (IMOs), these were: improved chilli cultivation, land-lease and beef fattening⁵. All three products had 100% recovery rates and overall the clients claimed that they benefited from the loan and were satisfied with the IMOs' implementation of the loan. Key features which made the loans suitable in the *char* context were the one-time repayment system upon loan maturity, specific training on the relevant IGA and a strong post-disbursement tracking system.

Based on the evaluation of these pilot loan products and an assessment of the existing products, the review team recommends that loan products offered on the *chars* should diverge from the general models currently offered by the leading national MFIs. Instead, loan products should account for seasonal cash flows and have the following features:

Table 1: Loan Features for the Char Context

Loan feature	
Size	Large enough amount to cover start-up and input costs for the IGA..
Duration	Seasonal depending on activity e.g. 6 months
Repayment schedule	One-time upon loan maturity, e.g. after harvest crops or flexible
Interest rate	Lower than rates on the mainland, and realistic in terms of the economic scale of the activity.
Purpose	Activities with the greatest potential include beef fattening, poultry rearing, crop cultivation (maize, chilli, onion, lentils and spices) and food processing.

A detailed cost-structure analysis of each of these activities would provide clearer guidelines to the MFI branches on how much they need to lend to enable their clients to make sufficient profit.

The ultra-poor do not have the capacity or psychological preparedness to take on mainstream MF loans and therefore require a softer and more flexible MF product with a lower interest rate that is tailored to their economic activities. MF for the ultra-poor should:

- Encourage clients to save, but not make savings compulsory;

⁵ For a more detailed review of these pilot loans see: Or'-Rashid, H and McIvor, N (2011), 'An Evaluation of the Microfinance Loans Piloted Under CLP-1', is available at: www.clp-bangladesh.org.

- Ensure access to savings at any time;
- Offer a smaller loan size compared with regular microcredit loans but sufficient for the borrower's investment;
- Provide training to complement the selected IGAs;
- Provide training to build clients' confidence and capacity to prepare them to manage their loan;
- Offer a flexible loan repayment schedule.

5. Responding to the Char Context

To deliver MF on the *chars*, MFIs must diverge from the mainstream approach in their product design and delivery mechanisms. Given the combination of challenges faced, offering financial services alone is insufficient to achieve successful and sustainable MF for poor and extreme poor populations. Table 2 offers some suggestions for overcoming the challenges of delivering MF on the *chars*.

Table 2: The Challenges and Possible Responses to Delivery of MF on the *Chars*

Challenge	Response
Remote location, leads to high transaction costs	Set up small unit offices under the main branch to reduce travel between the mainland and <i>chars</i>
High staff turnover	Introduce hardship allowances for staff
Scattered households means long distances for borrowers and field officers to travel for meetings	Frequent group meetings will not be necessary if repayments are less regular i.e. seasonal or 6 months
Little or no electricity means that MIS is manual	Human resources capacity training and good book keeping skills should be delivered to MFI staff
Low levels of education and lack of exposure to media means that MFIs can be received negatively in the community	Social development work to build group cohesion and leadership skills to enable clients to take advantage of the loans
Lack of adequate information about the latest knowledge and technology in agricultural practices	Provide skills training specific to the client's needs and appropriate for their utilisation of the loan.
Continual relocation of clients due to river erosion and flooding	Strong post-disbursement tracking system
Lack of diversified income and seasonal cash flow	Seasonal loan repayment systems which complement cash flow rather than weekly loan installments
Isolation and distance from extension services	Market development initiatives such as collective action to organise markets to attract traders are required Improve information flow to provide MFI clients with information on how they can access extension services provided by the government and other organisations

6. Expanding and Improving Microfinance on the Chars

Giving poor and ultra-poor *char* dwellers access to *appropriate* credit has the potential to enable them to improve the productivity and financial return from their economic activities. However, the loan products and the delivery mechanisms must diverge from mainstream MF to meet the specific needs, particularly the seasonal cash-flows and migration of the *char* population. Recommendations to increase the presence of MF on the *chars* and provide appropriate loans to a larger number of poor *char* dwellers include:

1. **Bring stakeholders⁶ together** to develop a strategy for MF on the *chars*. A workshop engaging key stakeholders, would provide the opportunity to share CLP's experiences maps, database and findings on MF in the context of *chars*. From this a forum could be developed made up of all of the MFIs operating in the locality or peripheral *char* areas, as well as other stakeholders (financial, market development, government) and initiate dialogue with these MFIs to expand their services on the *chars*.
2. **Customise loan products** based on the specific economic activities undertaken. The cost structure breakdown of key economic should be calculated for activities specific to the *chars*. These can be used to tailor loan products and provide guidance on suitable loan sizes and borrowing conditions for *char* dwellers.
3. Through CLP's IMO's, **pilot the customised loan products** designed through and support MFIs to develop long-term business plans for products which are scaled up.
4. **Emphasise savings accumulation** by offering innovative and flexible savings products such as daily savings, or savings in kind. The Forum could drive this.
5. **Training:** Intensify capacity building, market development and information flow among the *char* dwellers through various types of training.
6. **Bring changes to the delivery mechanisms of MF operations** on the *chars* by setting up small unit offices under the main branch and possibly introducing a hardship allowance for field staff.
7. **Seek alternative sources of financing** for MFIs operating on the *chars*. Options include:
 - A forum of MF stakeholders developing partnerships with organisations, private businesses and banks to encourage them to demonstrate their greater social responsiveness by creating a fund to provide extension services to the *char* dwellers;
 - MFIs could provide these services to the *char* dwellers using the earnings retained from MF to bear the costs;
 - Funds from international donors could be channelled through PKSF to subsidise MF provision and services on the *chars*;
 - Stakeholders could lobby the government to provide extension services on the *chars* as they are mandated to ensure these services everywhere in Bangladesh.

⁶ Annex 2 provides a list of the key stakeholders.

Annex

Annex 1: Key Features of the Loan Products for the Poor and Extreme Poor

	Size of loan	Interest rate	Repayment schedule	Duration of loan	Loan Activity
BRAC DABI	Tk.10,000-50,000 (1st time); Max: Tk.100,000	27% declining	Monthly (as of Jan 2012)	1 year	General any purpose
GB Beggar loan	Up to Tk 2000	0%	1 time after selling goods	After selling goods	Sell door-to-door goods from a shop
GB General	Tk.1,000–Tk.10,000 (1st time)	10% flat	Weekly	1-2 years	General any purpose
PKSF UPP	Tk.3000-5000 (1st time); Max: Tk.15,000	20% declining	Weekly/flexible	1 year	Any IGA and sometimes consumption
PKSF RMC	Tk.5000-6000 (1st time); Max: Tk.29,000	25% declining (varies depending on MFI)	Weekly	1 year	Rural investment - crop and non-crop agriculture and small trade, if successful leads to ME loan
PKSF Seasonal	Max: Tk 50,000	6% or 10%	1 time after harvest	6-9 months	Any seasonal activity e.g. crop cultivation, beef fattening

Annex 2: Key Stakeholders

External	Regional NGOs Operating Microfinance, with Links to the CLP
PKSF DFID Institute of Microfinance (InM) BRAC Grameen Bank ASA Society for Social Service (SSS) Small MFIs Credit and Development Forum (CDF) Katalyst CLP	Rangpur Dinajpur Rural Service (RDRS) Gana Unnayan Kendra (GUK-G) Gram Unnayan Karma (GUK-B) Samaj Kallyan Sangstha (SKS) Manab Mukti Shangstha (MMS) Peoples Oriented Program Implementation (POPI) Solidarity Unnayan Sangha (US) Eco-social Development Organisation (ESDO) National Development Programme (NDP)