

## **Chapter 1 Overview of the Study**

*“Poor people are bonsai people. There is nothing wrong with the seed. Society simply never gave them the space so that they can grow as tall as anybody else.”*

*- Professor Muhammad Yunus (2008)*

### **1.1 Introduction**

Microfinance has been a major intervention in poverty alleviation paradigm in many parts of the developing world including some of the poor nations of Asia and the Pacific. Its direct beneficiaries are the poor women who are perceived to have been economically uplifted and societally empowered in terms of social position, family decision-making and dignity<sup>1</sup>. In this world of multifarious initiatives to assist the poor and the helpless, particularly the female poor, microfinance has surfaced as one of the most unique and remarkable interventions for the last half a century or so. There had been numerous studies, though not purely focused as such to reiterate the above claim, but its contributions and potent is widely acknowledged as an effective innovation by the donors, development partners, microfinance institutions, and governments across the globe (Mayoux 2006). Based on the unique intent to alleviate poverty among the poorest of the female poor, there are numerous schemes and models in vogue in different countries. Yet Bangladesh remains in the forefront having pioneered this noble race. It is important to continue study and research on the contribution of microfinance schemes vis-à-vis other interventions in practice. These noble steps focus onto the ultimate objective of making the world free from poverty and placing poverty in the museum<sup>2</sup>. It is also important to examine the correlation between poverty alleviation, female empowerment and microfinancing by private enterprises and the governments. In another account, it needs to be seen how much has it facilitated Bangladesh in achieving at least two major targets of the Millennium Development Goals (MDG) well within the schedule, i.e. by the year 2015. It is also going to assist Bangladesh in achieving further five of the Sustainable Development Goals (SDG) 2030 (goals 1, 2, 3, 5 and 10).

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<sup>1</sup> Thapa, G. expressed that access to microfinance contributes to poverty reduction, particularly for women participants. It also contributes to women's empowerment, including higher levels of mobility, political participation and decision-making. Women's Empowerment and Microfinance, December 2011, p 9.

<sup>2</sup> Yunus, M, the Nobel laureate in 2006, declared to send Poverty to the museum by 2030. <https://www.youtube.com/watch?v=ioR1leTmcb0>.

Majority of microfinance interventions in Bangladesh are available in the form of microcredit schemes (Graflund 2013). It is widely believed that there is a positive association between microcredit schemes and poverty alleviation. There is also a positive relationship between microcredit and those women's empowerment in rural Bangladesh, who participated in the schemes. Bangladesh, due to its pioneering of microcredit initiatives is often called as the Mecca of microfinance and the United Nations declared the year 2005 as the Year of Microfinance with the statement, "*Microfinance recognizes that poor people are remarkable reservoirs of energy and knowledge...today it is also understood as an untapped opportunity to create markets, bring people in from the margins and give them the tools to help themselves*" (Brown, 2011)<sup>3</sup>. The study has two aspects, first examining the economic development of the poor women through microfinance interventions and second, whether it adequately contributes in women empowerment under the backdrop of unique socio-politic dimensions of rural Bangladesh.

### **1.1.1 Outline of the Paper**

The paper essentially is divided into five chapters. In chapter 1, it gives an overview of the study by introducing the subject. It also covers the literature review of various academic works on the topic and brings about relationships established therein between microfinance and women's empowerment followed by Bangladesh context in details. Chapter 2 enumerates the theoretical framework of microfinance and conceptual framework of women's empowerment in Bangladesh. Chapter 3 describes method of data collection, the scope, approach and some of the limitations of the study. Chapter 4 presents the analyses of the results and inferences drawn therefrom. Chapter 5 presents some discussions on ways forward and also draws important conclusions and suggests areas for further exploration and study.

### **1.1.2 Purpose and Significance of the Study**

- a. **Purpose.** Rural poverty has been one of the major hurdles impeding the journey of Bangladesh towards attainment of the goals of poverty alleviation and economic prosperity. In recent years, Bangladesh has made some steady economic progress with a hope to come out of the tag of Least Developed Country (LDC) within next

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<sup>3</sup> George Brown, 2011. When small is big – microcredit and economic development, refers to Mr. Kofi Annan.

few years but there are still much to be done to reduce rural poverty to zero. Among the rural population, the women folks have been the more helpless - the ultimate deprived and the sufferer. The urban female population has seen numerous important positions in the business and politics being taken by the women, including the Prime Minister and other ministers, the Parliament Speaker and Leader of Opposition. Professor Muhammad Yunus and his women-centric microcredit venture - Grameen bank received Nobel Peace prize in 2006. The novel concept of microcredit has since been aiding a significant percentage of rural women to be rescued from the downtrodden grips of poverty and become self-reliant. However, it is yet to be understood whether the long-existing powerlessness, helplessness and deprivation of the women have been adequately diminished or not in the realities of rural Bangladesh. The main goal of this study is to understand how the poverty-stricken women in the rural parts of Bangladesh women are being helped to become self-reliant and empowered by microfinance initiatives. Due consideration is given on the relevance of microfinance interventions that have been ongoing in the last four decades or so. Through study of the previous field researches, case studies and interviews, the researcher attempts to understand the process and extent of personal empowerment on the accounts of rural women. These women are in a continuous struggle to financially develop and empower themselves. The study also wants to reiterate the issue whether the microfinance as a concept is still relevant in poverty alleviation and contributory to the economic revival of the poor in the wake of some contradictions in certain quarters regarding its mode versus the actual outcome. The impact of microcredit schemes in uplifting the individual, family and collective communities has not been dissected extensively that can be subjected to further review and research at a wider perspective. The study also registers some fact-based findings that rural population finds useful and accountable for future use.

- b. **Significance.** The study is significant for many reasons. Firstly, it will provide a comprehensive understanding of the causal relationship between poverty alleviation measures in the form of microfinance interventions and the empowerment of the

impoverished rural women, here in Bangladesh context. At present, women have gained relatively higher acceptance, social status, economic power and dignified positions compared to what it was several decades ago. Bangladesh society has acknowledged and addressed the discriminations that used to happen towards the women who constitute almost one-half of the total population. Transformation of moral standpoints and empowerment of women have attained rapid progress in the urban society and the rural women who lack sound education and income, lag behind. Eisenberg and Goodall (2001)<sup>4</sup> emphasized on empowerment, "Feminist theory focuses on the oppression and exploitation of women in the workplace and on giving women more power and voice in organizations" (p. 151). The paper will provide comparative cross-sectional study results from various previous researches that were carried out over a period of four decades. Thus, the study outcome will give a better valid picture of the impact of microfinance interventions. Secondly, the study also tries to find out the social uniqueness and associated impediments in empowerment process of the rural women. It is arguable whether or not the fabric of national culture (Hofstede 1973) is fully contextual with the poverty alleviation and empowerment. But it is true that many smaller microfinance institutions rely upon on external donation where the socio-cultural realities of rural Bangladesh may not have been truly replicated to those donor agencies. Microfinance now has been introduced in many countries across the globe but the need for customizing the interventions is an unmistakable aspect. This could possibly suggest to review or custom-design certain interventions to be more context-specific which may help make more unbiased decisions. Thirdly, it facilitates to develop grounds for further research with a holistic picture with a wider platform. Some interventions are true for a particular period of time and economic orientation which may not be yielding as much as before. Those can be identified and customized, refuted or some introduced afresh in some other forms. Fourthly, the study contributes to the attainment of core value of at least five of the seventeen Global goals for Sustainable Development; those are: goal 1 (No Poverty), goal 2 (Zero hunger), goal 3 (Good Health and Well-being), goal 5 (Gender

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<sup>4</sup> Eisenberg, E.M., Goodall Jr., H.L., 2001. Organizational Communication: Balancing Creativity and Constraint. Boston, MA: Bedford/St. Martin's.

Equality) and goal 10 (Reduced Inequalities). Furthermore, empowerment of the rural female population contributes directly in national development facets like, economic, human resource development, gender rights, female education, maternal health etcetera. It also prepares the younger female population to become good mothers and accountable family members, and overall the cornerstone of building responsible citizens of the future. Finally, the study gives an opportunity to reiterate the importance of identifying the means to enable the women to be more aware, better informed, more solvent and lead more dignified lives in the society. It is expected that the women will be able to find their appropriate status and soon shall be able to contribute further by holding leadership positions in various fields in rural society of Bangladesh.

## **1.2 Objectives of the Study**

The objective of the study is to examine how much the impoverished women of rural Bangladesh are being empowered through the microfinance interventions. The following are the details:

- a. To study and relate various concepts of empowerment, national socio-cultural fabric and poverty in order to understand efficacy of the microfinance interventions.
- b. To ascribe socio-economic realities of rural Bangladesh in order to understand impact of microfinance programs in reducing poverty therein.
- c. To identify social, cultural norms and other barriers in rural Bangladesh in order to assist existing microcredit schemes in empowering the women.
- d. To examine the actual effectiveness of microfinance initiatives in empowering the poor women of Bangladesh and suggest improvements.

## **1.3 Brief Review of the Literature**

Literature related to the issue of impact of microfinance in poverty alleviation is mostly showing that these two are positively associated. But the results of the studies in making the women more empowered sometimes had inconsistent outcomes. Though there exists a general consensus that

MFI's have the potential to empower the poor women in rural areas by dint of microcredit and other financial interventions, it also has opposing views owing to the inherent challenges in-built at the receiving end<sup>5</sup>.

Numerous studies are available, both by national and international level scholars that are relevant to this important issue. However, broadly they are summed up under following major categories:

- a. Literature on theoretical aspects of empowerment, poverty and cultural dimensions of a national society.
- b. Literature on women empowerment in Bangladesh including its challenges.
- c. Literature on relevant aspects of money market and microfinance in Bangladesh.

### **1.3.1 Theoretical and Conceptual Aspects**

Empowerment has originated from the essence of power and powerlessness as stated in Theory of Social Empowerment (Lord and Hutchison 1993). While understanding the essence of empowerment one has to agree that power is a variable that can alter both in amount and direction. In the context of old times, power used to be often centralized and remained in the hands of the rulers. The subjects were often weak and poor because they lacked power and had want of riches. Power is closely linked with authority. Mayoux (2006) stated that the edifices of power as regards, the source, the possessor and the nature of exercising power can make the difference for the women and their fateful destiny. Majority of the scholarly articles and studies are based on Bangladesh as it all started in Bangladesh in mid 70s by its pioneer named, Professor Muhammad Yunus (Yunus 1999).

### **1.3.2 Empowerment and Women Empowerment**

Empowerment can be termed as a procedural approach challenging traditional assumptions and practices about the way things are and how they can appear to be. It challenges our basic assumptions about control of power, assisting, attaining, and achieving success. In order to further clarify the aspect of empowerment, it is necessary to understand the concept broadly as to

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<sup>5</sup> Kulkarni, 2011. P 10.

how and why it is zoomed on empowerment (Page 1999). In academic literature, the word empowerment first appeared with reference to civil rights. An article entitled “Toward Black Political Empowerment – Can the System Be Transformed<sup>6</sup>.” Thereafter this word started to find its place to discuss empowerment of marginalized peoples, like women and the poor, with regards to community development<sup>7</sup>. Since then till date, use of the word empowerment has been in vogue. In 2010, Wallis published an article entitled “Power and empowerment: Fostering effective collaboration in meeting the needs of orphans and vulnerable children<sup>8</sup>” and “Women empowerment through the Small Help Group (SHG) approach<sup>9</sup>”. Most of the definitions describe empowerment in terms of agency, “an actor’s or group’s ability to make purposeful choices,” Empowerment is also viewed as a person’s freedom to do and achieve the desired goals<sup>10</sup>. Alsop, Bertelsen and Holland, defines empowerment as a process of enhancing someone’s capacity to choose and then converting those choices into the cherished outcome<sup>11</sup>. In his article “Empowerment and Poverty Reduction”, Narayan (2002), defines empowerment as increasing poor people’s freedom of choice and action to shape their own lives<sup>12</sup>. Professor Amartya Sen (1993) describes empowerment as a reflection of an individual’s capability set. According to Sen, in empowering a person in general and a woman in particular, it has to be a capacity building including some universally accepted functions. These functions relate to the basic fundamentals of survival and well-being notwithstanding the context. These include very basic needs: food & nutrition, health & well-being and shelter & safety. Absence of these may be considered as indicators of powerlessness and deprivation, and inequality. Sen (1993) also categorized women empowerment into individual and collective empowerment. At individual level, empowerment implies women possessing an agency, have some degree of independence (autonomy), having freedom to decide whether or not to get involved or opt-out from a situation or circumstance, possess self-composure and self-confidence, and development of self-esteem. At collective level, empowerment implies participation and involvement of women as a group into gender-related issues and able to exercise a shared-understanding, opinion and idea-

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<sup>6</sup> Conyers, J. *Toward Black Political Empowerment: Can the System be Transformed?* 1975, pp. 2-7.

<sup>7</sup> Lausch, Heather, Literature Review: Theories of Empowerment, pp 1, 2011.

<sup>8</sup> Wallis, A. Power and empowerment: Fostering effective collaboration in meeting the needs of orphans and vulnerable children”, *Global Public Health* (2010).

<sup>9</sup> Augustine, D, Women empowerment through the SHG approach”, *Indian Journal of Social Work*, (2010).

<sup>10</sup> Sen, A.K. Well-being, Agency and Freedom, *The Journal of Philosophy* LXXXII (1985).

<sup>11</sup> Alsop, R., Bertelsen, M., and Holland, J. Empowerment in Practice, Analysis to Implementation”, World Bank (2006).

<sup>12</sup> Narayan, D. Empowerment and Poverty Reduction, World Bank (2002).

exchange with men of the society. It also includes the ability to question subservience of women and suggest ways-out from difficulties and vulnerabilities<sup>13</sup>. Personal and collective empowerment are closely interlinked and thus the presence of both the forms are essential within a particular society to be considered as having been empowered. Kabeer (2005) expressed a different point of view, and added the ability of making decisions and choose personal priorities to make necessary changes in life. When an individual promotes from powerlessness to a position from where these choices are afforded, it would amount to empowerment for the individual or the group. According to Kulkarni (2011) referring to World Bank policy circle, it outlines four essential elements to include empowerment's institutional approach: a) enabling access to information, b) ensuring inclusion and participation, c) maintaining accountability and d) capacity of organizing activities at local level. As per United Nations Fund for Women Development (UNIFEM 2000), women's empowerment implies obtaining the capacity to choose and able to make a bargain, it also includes inculcating self-worth and self-efficacy and the eligibility to govern own choices and preferences of own life.

### **1.3.3 Poverty**

Abedin (2013) describes the importance of poverty alleviation stating that poverty and vulnerability are closely interlinked and resorting to some income-generating activity can enable the poor to reduce the degree of their vulnerabilities. Referring to dictum of Karl Marx, there is existence of economic, political and social inequity due to disproportionate distribution of power and wealth. Social scientists have more focus on shares of production and distribution rather than addressing unequal distribution of resources. A study about poverty in UK shows that the likely strategy to deal with high poverty may constitute the following: a) conditional welfare for the few (signifies development of the poor law), b) minimum rights for the many, and c) distributional justice for all. As per poor law of 1832-4, poverty was believed to be a societal necessity among the working-class; otherwise the poor may become demotivated to work. On the contrary, beggars used to be treated as a moral defect rather than poverty responsible for it. It also advocated to exercise strict patriarchal measures to mete out the young from being lazy. Policy was also reviewed and modified to ensure conditional welfare for the selected lot. Adam

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<sup>13</sup> Sen, (1993) cited by Abedin 2013.

Smith's laissez faire economics also got linked to this theme along with hierarchal and market society. It also got related to the wage and payment was done based on amount of work done and display of eagerness to work. The second principle, minimum rights for many was introduced by 1909, that ensured minimum wage for the workers. Poverty was growing but manageable. The third principle, stating, distribution of justice for all has never been fully implemented in real sense. The poor are denied to be devoid of the privilege to obtain a share of the national per capita or an access to the societal privilege that exists for the affluent. Theories of poverty need to be closely related to these principles in order to comprehend the essence.

- a. **Minority Group Theory.** This theory is found in one of the earliest studies on poverty. It identifies characteristics of certain groups of people within a society that are poor<sup>14</sup>. The immediate causes of poverty were listed accordingly to be:
  - i. Principal bread-earner deceased.
  - ii. Inability of the bread-earner caused by some form of accident or compulsion.
  - iii. Unemployment or being laid-off.
  - iv. Non-permanent nature of work.
  - v. Disproportionately large family.
  - vi. Insufficient wage to meet daily needs.
  
- b. **The Sub-culture of Poverty.** This concept is the outcome of a number of anthropological, sociological and eugenic studies, and was modernized by Oscar Lewis<sup>15</sup>. This theory postulates that there are sub-cultural and sub-societal groups often formed by the poorest segment of a society which is typical and largely self-proclaimed and so continues. It essentially suggests a group that inherits the way of lifestyle over generations. It suggests that the poor can sustain and are adept in leading a sub-standard lifestyle with relative ease and resilience. It is not immediate

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<sup>14</sup> Rowntree, B. S., *Poverty: A Study of Town Life*, Macmillan, London, 1901, pp. 119-20.

<sup>15</sup> Lewis, O., *The Children of Sanchez*, Penguin Books, Harmondsworth, 1965, p. xxiv.

possible to make overnight improvements unless there are thoughtful financial and other interventions to assist them; mere charity may not work.

These are theories that applies very well for urban poverty. The paupers of Glasgow London and the slums of Mexico City share many similarities: they are close match in terms of household construct, mutual relationships, temporal bearings, values and ethos, forms of expenditure, and the community-living in frugal settlements. Problems are also identical: cash-crunch, unskilled labor, high rate of unemployment, low-wage, child labor, petty-crimes, sexuality and addiction, lack of privacy, frequent altercations are common features. But the sub-culture of poverty discussed above are not the actual form of poverty faced by the rural poor. The poor of Bangladesh are also circumstantially poor, not so by default. Giving charity is not the solution to alleviate their poverty<sup>16</sup>. Microcredit gives a better solution to address this issue and gives back the dignity and affluence the poor are in search of.

#### **1.3.4 Women Empowerment**

Empowering women amounts to contributing greatly to achieve gender equality and essentially it is also a tool for reducing poverty (Mayoux 1997). Throughout the world, it has been observed that working women are able to contribute to the national exchequer and also able to sustain an acceptable livelihood for self, family and dependents within communities. The women however, are often subjected to sidelining, discrimination, deprivation, both societally and legally from many aspects of their individual and collective lifestyles. Their education and freedom of work and mobility are subjected to close scrutiny and imposition of unreasonable restrictions referring to social norms, practices and sometimes religion. Loro (2013) concluded that in Asian societies women are preferred for unpaid household chores including childbearing, childrearing and caregiving while men are prone to resort to specialized productive activities. The women therefore are somewhat marginalized and their empowerment hence would necessitate mainstreaming them with all their valid rights and powers that they deserve (Noreen 2011). According to Abedin 2013 referring to Pitt (2006), microcredit approach has been a significant part of the national development initiatives for the last three decades and where major slice of the credit is provided to the women. It is believed that the women are reaping the benefits of

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<sup>16</sup> Yunus, M, "Charity only perpetuates poverty by taking the initiative away from the poor." 1999.

microcredit and are experiencing considerable empowerment. They are able to play an active part in family and local community arena therefore essentially attaining some degree of freedom as well. According to Kulkarni (2011), MFIs have certain unique characteristics; firstly, its principal client-base is women. Secondly, as institutions MFIs are also subjected to financial activities hence empowerment or disempowerment can be translated like any other financial institution. But their activities are branded as a two-pronged identity: financial service provider lending money, and also bear the potential of empowering the borrowers. It goes further beyond, in terms of societal, cultural and sometimes political domains which is inclusive of the borrower’s lives. Thus, MFIs are able to outreach upto the borrower’s monetary and non-monetary dimensions of life that is very different from those of conventional banks. Finally, the core function of MFIs continues to be extending financial credits to the poor women and men. It is acknowledged that women are the poorest of the poor, so helping this segment of population greatly contributes to poverty alleviation (Yunus 1999). Kulkarni (2011) argues that there is a fear of losing focus on the unique needs and demands of an individual woman in the surging spirit of collective welfare for women as a whole. However, empowerment of every single woman has a cumulative gain in empowering the women foe. But the reality and challenge of every women is diverse and to be understood and addressed accordingly otherwise a generic solution can barely improve situation and status quo of every individual woman.

## 1.4 Bangladesh Context

*“Microfinance is an idea whose time has come.”*

*-Kofi Annan (2005)*

### 1.4.1 Bangladesh in General

Bangladesh is a lower riparian country in South Asia north of the Bay of Bengal bordered by India and Myanmar. Bangladesh secured its independence from Pakistan in 1971 and inherited above 70% of its population suffering abject poverty. Bangladesh is the 8th (eighth) most populous country

Picture 1 Map of Bangladesh



in the world with the highest population density with an area of 147,570 square kilometers<sup>17</sup>.

Since the 1990s, Bangladesh has seen steady economic growth rate of around 5% per annum and in 2014, the Gross Domestic Product (GDP) grew about 27 times in four decades at US\$ 173.82 billion from only US\$ 6,29 billion in 1972<sup>18</sup>. In 2016, per-capita income of Bangladesh was estimated as per International Monetary Fund (IMF) data at US\$ 3,840 (PPP) and US\$ 1466 (Nominal)<sup>19</sup>. Bangladesh is an agrarian economy and rice is harvested three times a year. In 2012, Bangladesh has achieved self-sufficiency in rice production<sup>20</sup> and ranked fourth in rice production and consumption after China, India and Indonesia. Remittance is a significant contributor to today's Bangladeshi economy (Haider 2016)<sup>21</sup>. Over 8 million Bangladeshi workers work overseas and remit home over \$1 billion/month. At \$20 billion per year, Bangladesh is the second largest Readymade Garment (RMG) exporter in the world after China. RMG sector has created numerous jobs mostly for young females which saw growth at double-digit rates throughout the 1990s. The sector employs around 4.2 million Bangladeshis, of whom 80% are women from the rural poor. The RMG sector has employed women from the rural areas that was never included before in the formal workforce. These women have improved their financial condition and also are able to contribute to the family well-being, adding to the rural economic activities and also have grown, though not significantly, a voice in the family due to their limited financial ability<sup>22</sup>. Bangladesh, has successfully reduced its extreme poverty – the hardcore poor dropped to only 12.9 percent in 2016 from 44.2 percent in 1991 (World Bank data). Bangladesh is ranked 111 out of 188 countries in the 2015 Gender Inequality Index<sup>23</sup>. As per World Bank report 2013, Bangladesh had reduced its population living in poverty from 63 million in 2000 to 46 million in 2010. In consonance with the SDG 2030 (Goal 2), Bangladesh is also aiming to reduce poverty to zero by the year 2030<sup>24</sup>.

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<sup>17</sup> World Population Clock, the 8<sup>th</sup> most populated country as on 23 January 2017 with a total population of 163,997,717.

<sup>18</sup> Latifee, E. H, RMG sector towards a thriving future, The Daily Star, 2<sup>nd</sup> February 2016.

<sup>19</sup> Rahman, M. F., Bangladesh's per capita income \$1314, The Daily Star, 15<sup>th</sup> May 2015.

<sup>20</sup> McKee, D. Bangladesh is now in a position to help other countries with rice exports instead of importing from abroad, p1.

<sup>21</sup> Haider, M. Z, 2016, "The remittance receiver households receive US\$ 358 monthly remittance on an average which is much higher than the non-receivers covering their average monthly food expenditure and aggregate household expenditure.

<sup>22</sup> Kabeer, N., Garments workers in Bangladesh, Gender and Trade, Commonwealth Secretariat, 2011.

<sup>23</sup> Bangladesh is ranked 111<sup>th</sup> (value 0.503) out of 188 countries, UNDP Human Development Index Report 2015.

<sup>24</sup> Muhith, AMA, Finance Minister 2016. <http://bdnews24.com/WB-IMF/2016/10/09/poverty-in-bangladesh-will-be-reduced-to-zero-by-2030-finance-minister-muhith-believes>.

### **1.4.2 Poverty State in Bangladesh**

Being the eighth largest population within a small area, Bangladesh has one of the densest population in the world. About 13% of its population earn less than \$2 per day, hence live below the national poverty line. Bangladesh has successfully reduced its extreme poverty level – the hardcore poor dropped to only 12.9 percent in 2016 from 44.2 percent in 1991. In consonance with the Global Sustainable Development Goals 2030 (SDG Goal 2), Bangladesh is also aiming to reduce poverty to zero by the year 2030<sup>25</sup>. The 2010 household and expenditure survey by Bangladesh Bureau of Statistics states that 17.6% of the population were remaining under the poverty line. According to World Bank in 2013, Bangladesh could reduce its population living in poverty from 63 million in 2000 to 46 million in 2010. This also facilitated Bangladesh to reach its MDG, of poverty reduction, two years ahead of the schedule.

### **1.4.3 Bangladesh Money Market and Microfinance**

Abedin (2013) describes microcredit as, providing microloans (small amount) to the needy people who are in need of self-employment for survival. This money is also useful to earn a living by generating minor projects to meet his/her day-to-day family needs including healthcare and education for the family. It also is expected to raise standard of living and quality of life and well-being even though the small loans are to be repaid with interest within a short period of time. Regular repayment makes the borrower eligible to obtain subsequent loans whenever so needed. Majority of the microcredit clients are the rural women and they are greatly helped by the microfinance institutions who provide them with the amount and some guidance (amount is repayable with a fixed percentage of interest). This kind of alternative income-generating activity (IGA) is enabling the women to contribute to the family well-being<sup>26</sup>. According to Loro (2013), as in 2009, 98 percent of Grameen Bank's 8 million borrowers (microcredit clients) were women. In the pre-microcredit era, extending financial prescriptions to women through conventional banking system was beyond imagination<sup>27</sup>. Before the establishment of Grameen

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<sup>25</sup> Muhith, AMA, Finance Minister 2016. <http://bdnews24.com/WB-IMF/2016/10/09/poverty-in-bangladesh-will-be-reduced-to-zero-by-2030-finance-minister-muhith-believes>.

<sup>26</sup> Abedin, M, Z. and Moula, F. 2013, p 6.

<sup>27</sup> Loro 2013, p 4.

Bank, granting financial independence to women in rural Bangladesh was almost unheard of. Grameen Bank targets poor women to create self-employment and sufficiency and promote access to basic funds as a basic human right.

#### **1.4.4 Microfinance in Poverty Alleviation and Women Empowerment**

Cheston and Kuhn (2002) in her study measured empowerment process through microfinance with respect to impact on: their decision-making, inculcation of self-confidence, enhancement of status within family, reduction of intimate-partner-violence and ill-treatment, involvement in community activities and increase of political awareness and participation. Interestingly microcredit interventions have always provided immediate results, even though some results are short-lived and of non-standard proportion under varied conditions of borrowers. Abedin (2013) points out that the absolute hardcore poor cannot reap maximum benefits out of the microcredit program, rather the middle and upper poor can derive the most. The women clients are of wide range of age and education level, and at times are not able to make a sustained income-generation due to their inadequate making and marketing skills, absence of relevant training and lack of freedom to exercise social mobility. Many-a-times the women have not been able to avail access to other financial interventions of microfinance like micro-savings, microinsurance etcetera. All these authors demonstrate their definition of empowerment as the relationship between agency and structure. What these authors can all agree upon are some overall themes of empowerment. First of all, empowerment is very multidimensional and it can be exercised on many different levels and domains. Empowerment can look different at the individual level versus the community level. Empowerment is also relational, for it occurs in relation to whom a person interacts with. Narayan (2002) stated that empowerment is not a zero-sum game, but rather different types of power, such as power over, power to, power with, and power within. Finally, the literature stresses that empowerment is extremely culturally specific so possess unique circumstances and demand corresponding interventions (Narayan 2002). Loro (2013) refers to Mamun (2013) where a case study reveals that microcredit has been very effective in changing the overall scenario of many rural areas of Bangladesh. The study also revealed the

impact microcredit could generate on education, healthcare and income-savings-asset making cycle of the households being studied. It positively underpinned the growth in commencing child-education issue and facilitating the continuation of further education. It concludes that there is a need to have a welfare approach instead a pure commercial approach if microcredit genuinely should cement the contributions.

#### **1.4.5 Financial Market Situation in Bangladesh**

- a. **Pre-microcredit Era.** Following the great war of liberation in 1971, the emergence of Bangladesh also inherited the legacy of above semi-feudal rural financial disarray. The newly formed government found it challenging to streamline and provide adequate fund to the rural agro-economy as all sectors needed to start from a scratch having borne the brunt of war. These challenges were multiplied by several natural calamities that took their tolls on the rural population of Bangladesh. As a result, the domestic production vis-à-vis actual demand of rice was heavily disproportionate. With an increasing population and low absorbing state of workers in the agricultural sector, poverty set in heavily. With significant amount of widespread mismanagement and corruption, manufacturing sector also had not seen corresponding growth. Thus, the economy was sluggish, with high unemployment rate, low economic growth and ever-rising poverty, particularly in the rural Bangladesh. Henry Kissinger remarked Bangladesh to be a 'Bottomless Basket' at that time<sup>28</sup> (Mozena 2014).
- b. **Local Informal Lenders.** In light of the above discussion, the local lenders come to relevancy, who are familiar and possessed with ground information about the potential borrowers. Thus, the cost variations based on this asymmetric reason may have led to discouragement of urban funds to come in and causing indigenous monopolies in rural dimension. The local informal lenders were very common in the past (pre-microcredit era in Bangladesh). They constituted of the Mahajans (moneylenders), local traders and large landlords. It was highly profitable for these informal lenders as they lent their surplus

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<sup>28</sup> Mozena, Dan, US Ambassador to Bangladesh commented that Kissinger was wrong in calling Bangladesh a 'Bottomless Basket'. 15 February 2014.

capital instead of savings deposit/investment at the commercial banks. These informal lenders exploited the cliental-information advantage and that enabled them to monitor their clients closely and in an inexpensive manner. These lending used to happen at very high interest rates, sometimes in excess of 10% per month. These lenders primarily provided loans to those persons who otherwise worked for them and who were under their control in some ways. For example, a merchant would lend only to those who buy/sell regularly from their shop or business. The theoretical relevance of this fragmented rural economy could be termed as a monopolistic market. Furthermore, these lending used to be extended in non-standard terms, much depending upon the personalized relationship between the borrower and the lender. That is, the monopoly power of the rural moneylender is dependent on the intimate knowledge of the borrower's circumstances. The landlord-tenant relationship was also an important dictating guide of the rural market. Some studies portrayed the agricultural market as "semi-feudal" because the existing relations of production have more in common with classical feudalism of the master-serf type than with industrial capitalism. The salient features are given below:

- i. **Sharecropping:** This system is still in vogue in some scale in larger parts of Indian sub-continent. This is an informal arrangement between the landless farmers and the landlords for minimum one complete crop cycle and the harvest is to be shared in a pre-designated proportion between two parties.
- ii. **Indebtedness:** The in-built tricks keep the ill-educated and poor farmers always heavily indebted. The farmers were required to give a substantial slice of the harvest to meet-up the 'alleged' repayment of past debt with interest, thereby substantially depleting the actual balance of harvest. This arrangement barely enabled these poor farmers to live hand-to-mouth till the next harvest leaving only option to re-borrow (consumption loans) and get entangled with further debt. Thus, the tenant remains under

compulsion to continue to lease from the same owner and virtually turns them into subjects.

- iii. **Unreachability to the Market:** These harsh semi-feudal economic relationship is further multiplied due to very high rate of interest on consumption-loans. Being devoid of any collateral security to borrow against from the commercial banks, their only source continues to be the same landlord, who lends against the future harvest. When there are simultaneous borrowings, it is very much likely that certain portion of the loan may not be repaid in due time. Therefore, the landlord has to discriminate in choosing borrowers, and provide loans to known and loyal clients where there is minimum 'potential risk' of large-scale default.

c. **Emergence of Microfinance.** Under the above compelling circumstances, in the rural areas the landlords could exercise control over many poor tenant/farmer and prevent them from seeking informal-wage labor work or renting other land. Sometimes landlords would mention such restrictions in the contract. In such dire context, the microcredit concept that was introduced in Bangladesh as an effective model in rural-finance scenario which challenged the existing impasse and provided a softer intervention instead<sup>29</sup>. Its unique theme and operational mode differed distinctly from that of the traditional moneylenders and landlords who were monopolistic. Microcredit always allowed the borrowers to choose the activities in which they are willing to invest. It has a non-traditional approach to usual credit-delivery system and maintained healthier rapport between them and the lender (micro-financers). It works on borrower's trust as the security and provides loans irrespective of potential credit-risks perceived. It has gained the confidence of the rural poor and its outreach rapidly multiplied and Return on Investment (ROI) also showed high recovery. It provides both individual and group loans and the non-traditional method of "peer monitoring" has somewhat minimized the need for a collateral. Forming a group of four to five, there develops a joint obligation to

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<sup>29</sup> Jamadar, N. "The terminology or word 'microcredit' was not commonly in use or did not exist even in the early seventies although microcredit is now an important part of microfinance.

remain loyal to the lending terms in order to let their individual probabilities of getting another loan high.

#### **1.4.6 Empowering Bangladeshi Women**

*“Give a man a fish, he’ll eat for a day. Give a woman microcredit, she, her husband, her children, and her extended family will eat for a lifetime.”*  
- Bono (singer)

Microfinance program is considered a key strategy in Bangladesh as it can concurrently address both poverty alleviation and women's empowerment (Mayoux 2005). A UN estimate of 2008 showed that 48% of Bangladeshi rural girls age between 15 and 19 years are either married, divorced or widowed (Graflund 2013). It suggests that empowering women has to be given a high priority with genuine attention. At present majority of the expected outcomes from the small microfinance enterprises are:

- a. **Economic Affluence.** It should instantly increase economic power of the rural poor and provide some sort of financial independence.
- b. **Increased Access and Awareness.** It should offer them the scope to see the world outside family-quarters and access to markets, access to information and more opportunity to take part in other social and political roles.
- c. **Family Well-being.** Study shows that 76.4% lower class working women spend their income on household income (Akhter 2014). This enhanced ability of women's contribution is expected to increase women's voice in household decisions.
- d. **Increased Dignity and Participation.** It is expected to see general improvements in attitudes of the male-predominant society towards women's respect, and participatory role both in household and community.

#### **1.4.7 Social and Cultural Barriers**

Islam (2011) in his article lists some factors affecting women's empowerment on the Indian subcontinent: a) Patriarchal value system, b) Social attitudes and practices, c) Poor level of political participation by women, d) Lack of legal awareness, and e) Poor economic status. Kabeer (2005) describes access to education, access to paid work and access to political positions as potential barriers. Kalam (2014) states different kinds of domestic violence, patriarchal social system, unpaid labor, economic impediments, religious fundamentalism, dowry, child marriage and some other social taboo as impediments to empowerment.

#### **1.4.8 Factors Affecting Women's Empowerment in Bangladesh**

Gender discrimination is a common issue that is not confined to the boundaries of any particular country. Women perform more than three quarters of the total work including their household works. But they are often under-acknowledged and ill-paid. They receive one-tenth of the world's income and one-hundredth of property rights. Women are subjected to face maltreatments and abuse, often by their own people. This includes intimate partner violence as well. The essence of gender equality is widely discussed in various forum of Bangladesh but seldom implemented at the grass-root level in the rural society. The people can barely step outside the ownership, freedom and other aspects related to women that are outlined in religious obligations and social norms. As a result, both Muslim and non-Muslim women encounter some degree of discrimination from their society and family.

- a. **Economic Factors.** Most of the rural women of Bangladesh had no income or access to financial resources before microfinance interventions started operating there. According to Rahman (2007), the microfinance institutions and NGOs have entered vividly to break the cycle of poverty among the rural poor, particularly the women. In Bangladesh, with a high level of Power Distance between men and women, the formal procedure of obtaining loans for women is much more difficult than men. Microcredit successfully intervened this issue, reversed the conventional banking bureaucratic procedure and offered a simpler and friendlier option for the women.

Study reveals that women have been proved more trustworthy in repaying the loans<sup>30</sup> and also spend majority of their financial earnings towards individual and extended family. Some women have also been able to experience some savings from their income. Household consumption increased to 18% when lending to women as opposed to 11% when lending to male borrowers. Unfortunately, hardly there is any asset or property belonging to the women's name unless inherited.

b. **Socio-Cultural and Religious Factors.** There is a general belief the rural women of Bangladesh who are barely educated, are loyal and faithful towards microfinance interventions. This has been reiterated through years of their compliance to the programs and made them eligible for repeat-loans. There are many kinds of NGOs and MFIs, old and new, big and small but there are negative voices against their uninterrupted operation. Study reveals that the larger institutions are more rigid in recovery of loans whereas the new NGOs are apparently more flexible in their approach. The societal impediments of women may be summarized as:

- i. Access to work, market, information and higher education.
- ii. Religious bindings, e.g. Purdah (veil), Fatwa (interpretation), unequal inheritance.
- iii. Intimate partner abuse and domestic violence.
- iv. Early marriage and dowry.
- v. Treated as second class citizen and discriminatory decision-making.

Women empowerment is necessary for most of the sectors: social, political, religious, freedom of decision-making, freedom of choice, access to information, access to higher education, access to voting right, access to healthcare etc. It can be said that microfinance is not the solution but part of the solution thus warranting a holistic approach. Microfinance has contributed immensely over the last few decades. However, there are cultural and religious issues that sometimes overshadow the benefits of the system. Some religious explanations

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<sup>30</sup> Rahman (2007), In Bangladesh 94% microcredit borrowers are women and their repayment rate is 98%.

describe microcredit as an illegitimate source of business that is contrary to religious prescriptions. At some places, cultural bindings also discourage the women to work and move outside their houses and tend to confine them to their domestic household chores<sup>31</sup>. According to Bhushal (2010), the women are often subjected to disparity and ill-treatment by their male counterparts. Menace of early marriage and dowry are still in vogue in many parts and a large-scale awareness campaign has helped to some extent to reduce this aspect. Women are often required to wear hijab, burqa and veils and not allowed to wander outside without being accompanied. Government has attached great priority on girl's education, their higher education is not yet a social practice.

#### **1.4.9 Microfinance Institutions in Bangladesh**

Microfinance institutions cover almost all parts of Bangladesh to carry out their programs. Out of all microcredit institutions operating in Bangladesh, 10 large MFI and Grameen bank represent 87% of total savings and 81% of total outstanding loans in the microfinance sector. The investments mostly are at the private sector but are operating under government's scrutiny.

#### **1.4.10 Government Institutional Framework: Microcredit Regulatory Authority (MRA)**

The government of Bangladesh has established a Microcredit Regulatory Authority (MRA) to oversee the mushroom-growth of the NGO and MFI population in the country. It aims to promote a congenial microfinance environment in the country and also is now the central body to monitor and supervise microfinance operations. Any NGO or MFI willing to operate in Bangladesh needs to obtain a license from this authority to enable functioning under a uniform umbrella. The following table shows a broad picture on microfinance investment environment in Bangladesh:

**Table 1 Microcredit Environment in Bangladesh 2010-15**

<b>Index</b>	<b>June 2010</b>	<b>June 2011</b>	<b>June 2012</b>	<b>June 2013</b>	<b>June 2014</b>	<b>June 2015</b>
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<sup>31</sup> Akhter 2014, p 1.

<b>Registered MFI</b>	518	580	618	690	697	697
<b>Borrowers (million)</b>	25.28	26.08	24.64	24.60	25.11	26.00
<b>Credit Status (billion taka)</b>	145.1	173.79	211.21	257.01	282.20	352.41
<b>Loan disbursed (billion taka)</b>	306.72	303.18	456.02	432.28	462.00	634.00
<b>Savings (billion taka)</b>	51.36	63.31	75.20	94.00	106.99	135.41

(Source: Microcredit Regulatory Authority MIS Data 2015)

Table 1 shows that, between the years 2010 to 2015, the credit, loan disbursement and savings situation in microfinance sector of Bangladesh has seen progressive growth. In last five years, the loan disbursement, credit and savings have been doubled. Due to increase in per capita income, loan repayment rate has also been consistent which was over 96%<sup>32</sup>. Loan disbursement in 2011-12 saw a growth rate more than 50% and in 2015 it was 37%. This signifies an overall congenial environment for the microcredit programs throughout the country.

#### **1.4.11 Grameen Bank (GB)**

Grameen bank was formed in 1976 through a research project by Professor Muhammad Yunus to examine the possibility of designing a credit system targeted to the rural poor. The project was transformed into an independent bank in 1983 named the Grameen bank. The organization builds on a group-based credit approach that utilized the peer-pressure within the group to ensure that the borrowers follow through with their payments. As stated earlier, the government of Bangladesh has fixed the flat interest rate that microfinance institutions can charge at 11 percent. Grameen bank's flat interest rate is at 10 percent which is repaid via weekly installments (Grameen bank 2015). It has around 8.81 million active borrowers of whom 97 percent constitute women. It operates via 2568 branches in 81,392 villages in Bangladesh (Grameen bank 2015).

<sup>32</sup> MRA, Microcredit Regularity Authority annual report 2015.

By providing collateral-free microcredit loans, it has reversed the conventional banking system in Bangladesh. It banks on client's trust, accountability, participation, communication and creativity. It targets the poorest of the poor, even the rural beggar women who have no asset or possession whatsoever. Grameen bank challenged both, the age-old rural informal lending and conventional banking system and displayed the efficacy of credit as a cost-effective tool against poverty. The poor of Bangladesh had been left out of formal financial orbits that was identified and duly built-on by Yunus (GB 2015).<sup>33</sup> For example, village payphones were introduced when there was very less density of rural telephones and poor family members needed to remain connected with their family members who work outside their village or sometimes overseas. With time, the mobile phone penetration has increased significantly yet the old program has been seeing growth as it adjusted its mode by adding additional services like electronic balance top-up and electronic money transfer. The village payphone program has seen a growth of 14.1% and by the end of 2015, the number of village payphone ladies reached to 1.63 million who have taken loans amounting to 2.72 billion Taka.

Struggling Members Program, a special scheme, provides interest-free (0%) loans and give small useful items to beggars and the abject poor. The most helpless and poor segment usually resort to begging in the rural society. Many of the beggars are disabled, impaired vision or hearing, and mentally challenged people, and of course, very old with poor health. Grameen bank has helped 109,000 such beggar-borrowers with an amount of US\$ 2.6 million (Grameen Bank 2015). These desolated people displayed extreme integrity and repaid 85 percent of their loans by 2015. As a result of this intervention about 16,905 beggars attained some degree of economic solvency and quit begging for good. Another 9029 beggars joined the group of mainstream borrowers of Grameen bank.

#### **1.4.12 BRAC (Building Resources Across Communities)**

Initiated in 1972 by Sir Fazle Hasan Abed, BRAC is the oldest NGO in the poverty alleviation sector in Bangladesh. He established BRAC as an aftermath of the severe natural disaster in 1970 that took the lives of over 300,000 coastal population. It thus started with the relief and

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<sup>33</sup> Yunus, M. Professor Yunus said, "These millions of small people with their millions of small pursuits can add up to create the biggest development wonder." Grameen Bank webpage; 2015.

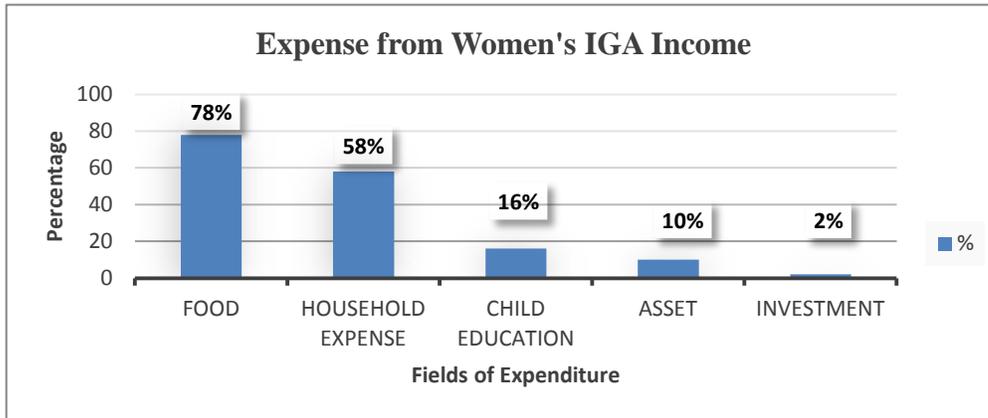
rehabilitation prescription in the disaster-affected areas and later expanded assisting the poor in various sectors including microfinance. It is also the largest development organization and NGO in the world considering number of people it serves. It has now spread its operations in 11 countries across five continents, and able to assist the lives of 1 in every 55 people in the world. BRAC works in diverse sectors in addition to its small-borrowing initiatives. It currently serves 5.3 million borrowers most of who are women via 2150 branch offices with microcredit. It has provided 583,000 women various kinds of assets. BRAC has two forms of microcredit: one called Progoti, which is given for both men and women and one called Dabi, which is given in a group setting that is labelled the Village Organization (VO). The VO, each with 30-40 women, function as a platform for poor women to come together, exchange information and raise awareness on social issues concerning their daily lives. Furthermore, the VO works as an informal guarantor by creating peer pressure within the group for regularly repayments. Borrowers repay their loans via weekly installments at a flat rate of 11%. These amounts are generally utilized for small ventures like, domestic poultry, livestock or handicraft (BRAC 2013).

**Women's Empowerment by BRAC Microfinance.** BRAC has numerous development programs in diverse fields of work. It maintains the following focus on women empowerment:

- a. **Material Pathways.** In this concept, the women are processed into experiencing access and control over material resources.
- b. **Income Generating Activities (IGA).** BRAC provides the credit, training, and other support to rural women in order to enable them to be involved in different types of IGAs and are able to bring meaningful progress in their lives. Studies reveal that women belonging to families with relatively better economic condition were often discouraged or not allowed to participate in microfinance opportunities by their husbands owing to religious obligations. Findings also reveal that women who started their mini-business with small capitals before joining BRAC were struggling to make any profit. They also borrowed from local moneylenders at very high interest rates

which enchained them with debts. Upon receiving loans from BRAC, these women often had sufficient capital to improve their economic well-being and also make some savings. It was revealed that some women handed their capital to their male partners to operate some business. Due to the increased financial ability, however, most women experienced an increase of their importance within family affairs.

**Figure 1 Expense pattern from Women's IGA Income**



(Source: BRAC 2015)

The above figure shows that about 78% of IGA income goes to food consumption, 58% against other household expenditure, 16% against children's education, 10% against asset accumulation and only 2% is invested.

- c. **Reduced economic dependence on husbands.** It is believed that once women begin to have economic strength by steady income, it is likely to reduce their economic dependence on husband. It is expected that women will be able to experience some control over this income. Some women felt confident to purchase items for personal use like saree or dress not relying upon their spouses. The income can also be used to meet other unforeseen expenses like sickness, marriage or assistance to a family member.

#### **1.4.13 ASA – Association for Social Advancement**

Founded by Shafiqul Haque Choudhury in 1978, ASA is one of the leading MFIs of Bangladesh at the moment. It began its operation with a view to assisting the underprivileged population of rural Bangladesh in attaining sound livelihood and escape from the poverty-trap. ASA's primary focus is on the well-being of the uncared and downtrodden segment of the population. It is a self-financed organization and does not take grants or donations of any kind from outside. In 2015-16 it saw a growth of 52 percent and reached its microfinance clients numbering to 7.4 million with dominating number of women and total loan disbursement amounted to BDT 209 billion (USD 2.68 billion)<sup>34</sup>.

**Loan Insurance for Borrowers.** It was seen in the past that sometimes the borrower women or their husbands die before reaching old age. Such untimely deaths have a negative impact on the sustainable poverty alleviation programs and tend to multiply their challenges. The issue of untimely deaths was duly addressed by ASA, which introduced loan insurance that has a low premium (only 0.07%) to include death benefits to the deceased family. In the year 2015-16, ASA has paid an amount of US\$ 8.45 million to beneficiaries of the policy holders<sup>35</sup>.

**Table 2 Comparison between BRAC, Grameen and ASA**

	<b>ASA (2015-16)</b>	<b>BRAC (2015)</b>	<b>Grameen (2015)</b>
<b>Number of Borrowers</b>	7.68 million (majority female)	4.9 million (87% female)	8.81 million (97% female)
<b>No of branches</b>	2941	2150	2568
<b>Interest rate</b>	11%	11%	10%
<b>Loan disbursed</b>	US\$ 2.68 billion	US\$ 2.5 billion	US\$ 3.36 billion
<b>Repayment rate</b>	99.67%	99%	98.85%

(Source: 2015-16 Annual Reports of the Grameen Bank, ASA and BRAC)

<sup>34</sup> ASA, Annual Report 2015-2016, extracted in 2017.

<sup>35</sup> ASA, Annual Report 2015-16.

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Table 2 shows a comparative picture of three major MFIs of Bangladesh with its overview of strength and performance.