

Bangladesh

Rural Development Credit Project (Grameen Bank)

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Field Survey: August-November 2001

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1. Project Profile and Japan's ODA Loan

1.1 Background

Nearly half of the population of Bangladesh is living in poverty, and the alleviation of that poverty is now delegated the highest degree of importance in terms of national policy. Further, the majority of the poor are essentially landless (defined as those possessing less than half an acre of land), with this group comprising approximately 60% of the total number of farming households. With no access to public financial institutions, landless farmers had little alternative to their low standard of living.

The Grameen Bank, a bank with a special mission, was established in 1983 under the Grameen Ordinance. The Bank extends unsecured small loans (known as "micro credit") to groups of five persons based on the joint and several guarantee system. Because 94% of its clientele are women, the bank's activities are considered beneficial to the elevation of the status of women in the country.

1.2 Objectives

By providing unsecured credit for production capital such as wells, machinery, and so on, the project was designed to assist the landless rural poor of Bangladesh in the form of enhancement of living standard and production activity. At the same time, the ODA loan project was meant to bolster the Grameen Bank's financial structure, especially in the housing loan sector, which tended to be characterized by disparity between credit terms and sum of capital procured.

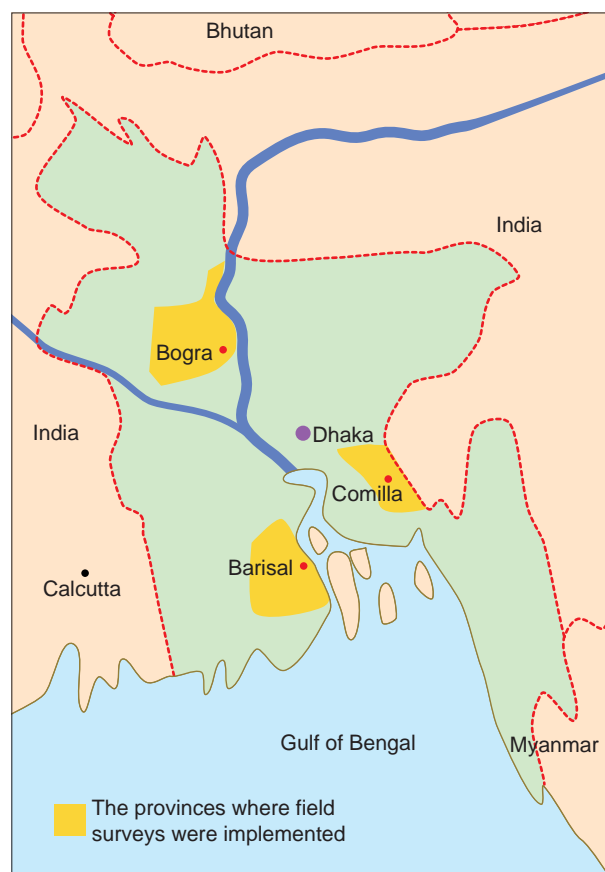
1.3 Scope

As a development finance loan disbursed to poor landless farmers through the Grameen Bank, project funds were applied to the following "sub-

loans" disbursed under the Grameen Bank system: housing loans (for homestead hand-manufacturing operations, etc.) and three types of medium and long-term General and Collective Loans (referred to below as G & C Loans) known as Tubewell Loans (for well construction), Sanitary Loans (for construction of makeshift toilets), and Leasing Loans (for capital purchases).

1.4 Borrower/Executing Agency

President of the Peoples' Republic of Bangladesh /
Grameen Bank



1.5 Outline of Loan Agreement

Loan Amount/ Loan Disbursed Amount	2,986 million yen 2,986 million yen
Exchange of Notes Loan Agreement	June 28, 1995 November 13, 1995
Terms and Conditions Interest Rate Repayment Period (Grace Period)	1.0 %p.a. 30 years (10 years)
Final Disbursement Date	June 2, 1998

2. Results and Evaluation

2.1 Relevance

One of the goals of the country's fifth five-year plan (1997-2002) was to achieve the alleviation of poverty, through rural development and implementation of micro credit, following on previous development plans. Approximately 80% of Bangladesh's population resides in agricultural districts, with the majority living in poverty. In efforts to increase production and promote small business, the government of Bangladesh has implemented a range of systems giving preference to landless farmers, including job training, broad-based awareness enhancement programs, and micro credit. Further, the government continues to consider the fostering of micro credit to be an issue of top priority. In light of its consistency with top-level policy, the project's relevance is clear.

Figure 1: Status of Sub-loan Implementation by Loan Type (Outcome)

	No. of Sub-loans	Loan Amount (Million taka)	Grameen Bank Share (Million taka)	ODA Loan Share (Million taka)
Housing Loan	114,370	1,314	493	821
Medium and Long-term G & C Loans	62,640	375	94	281
Tubewell Loan	27,410	89	2	87
Sanitary Loan	24,510	22	3	20
Leasing Loan	10,720	264	90	174
Total	177,010	1,690	588	1,102

Source: Grameen Bank

2.2 Efficiency

The project has resulted in the construction of 114,000 houses, 24,000 makeshift toilets, and 27,000 wells, providing 11,000 leasing loans.

According to the original plan, 95% of the ODA loan was to be allotted to housing loans; this figure was scaled down, however, to approximately 75%, with the amount assigned to leasing loans compris-

ing a larger share than allotted under the initial plan. The original amount required by the leasing loan program, which were still in a trial stage at appraisal, was underestimated. The estimates were, however, revised in time for the loan agreement, when the Grameen Bank indicated the possibility that the funds required for leasing loans could increase dramatically. This change resulted in the implementation of a far greater number of leasing loans than initially forecast.

2.3 Effectiveness

Refer to third-party evaluations.

2.4 Impact

Refer to third-party evaluations.



Women receiving microcredit

2.5 Sustainability

No particular problems with regard to durability and/or maintenance and operations of houses renovated under the project were reported in the areas where field research was conducted.

The Grameen Bank is now in the midst of a shift from its original tendency toward horizontal expansion, which took the form of an increasing numbers of branches and members, to vertical expansion, i.e. larger loan amounts disbursed to each borrower, and improved quality of assets. This new development, however, is not expected to result in significant changes in the financial structure of the organization, including its system of capital procurement under relatively concessional lending terms, or its high personnel costs stemming from its labor intensiveness. In the future, operations costs are forecast to decline slightly due to higher average loans amounts, while capital procurement costs are expected to rise slightly as a result of increased instances of procurement from

markets combined with higher savings rates. It should be noted that care must still be taken with regard to payment delays, despite the trend toward improvement prevailing since 2001, as well as to changes to the loan system.

Comparison of Original and Actual Results

Description	Plan	Results
1) Project Scope	- Housing Loans - Medium and Long-term G & C Loans (1) Tubewell Loan (2) Sanitary Loan (3) Leasing Loan	(same as plan)
2) Loan Period	July 1995-June 1996	July 1995-June 1998*
3) Project Costs		
Foreign Currency	2,986 million yen	2,986 million yen
Local Currency	--	--
Total	2,986 million yen	2,986 million yen
ODA Loan Portion	2,986 million yen	2,986 million yen

* Housing loans were disbursed over the period of January 1996-June 1998.

3. Project Impact Evaluation by Third-party

3.1 Background

In October 1995, Japan Bank for International Cooperation (JBIC, at that time the Overseas Economic Cooperation Fund ; OECF) concluded a contract with the Bangladesh government for a loan totaling 2.986 billion yen. This fund was supplied to the Grameen Bank for Rural Development Credit Projects. The fund was intended to provide a source for medium- and long-term loans for establishing living and production bases, especially in the area of house construction, one of the projects being overseen by Grameen Bank.

Before entering into this loan contract, JBIC, from July 1996 to March 1997, conducted a baseline survey in order to assess the Grameen Bank project, and collect basic data for the continuous monitoring of the project. The survey was carried out in three rural villages in which Grameen Bank is active. JBIC had collected baseline data in order to examine the sustainability of the building loans. Evaluating the loans' impact would be carried out by continuously monitoring the effects of the project in the future.

In 2001, five years after the baseline survey, JBIC decided to ask a third party to conduct a post-evaluation of the Rural Development Credit Project. This study was intended to measure the effects of the project by looking at changes in living conditions within the three villages. The purpose of this survey is to analyze the results both quantitatively and qualitatively by asking the following questions: (1) how much impact did the Grameen Bank loan have on the beneficiary households? (2) What socioeconomic conditions maximize the effect of the Grameen Bank loans? (3) What factors determine the "success" or "failure" of individual beneficiaries of Grameen Bank loans?

When referring to the baseline survey of 1996, virtually the same questions were asked of the same households in the same villages during the same season of the year, to quantitatively ascertain the differences in changes during the five years as well as the present status, between the member households of Grameen Bank and others. In the areas concerned, multiple NGOs are performing micro-credit (MC) activities similar to those of Grameen Bank, and the members of these MC organizations were also included in the analysis.

In the three villages where the quantitative survey was completed, a qualitative survey was also conducted to double-check the quantitative results and to determine the qualitative impact of the Grameen Bank project. In this survey, participatory survey techniques were used including interviews, case studies and focus group discussions. In addition to Grameen Bank, other MC organizations active in the same area were also subjected to the analysis. This post-evaluation project surveyed three villages in Bogra, Comilla, and Barisal Districts. These villages had been the targets of the baseline survey in 1996. Bogra District is described as "advanced in terms of agricultural production, but backward in non-agricultural activities". Comilla District is "advanced both in terms of agricultural production and non-agricultural activities". Barisal District is "backward both in terms of agricultural production and non-agricultural activities". The objective of the study was to explore the impact creation mechanism of Grameen Bank's MC as well as other organizations' activities by comparing the difference between these three disparate areas. Each village was selected on the following criteria: 100 to 200 households; Grameen Bank is active in the area; convenient transportation is available; and the other NGOs are not particularly

active.

The quantitative part of this survey was carried out from late August to September 2001; the qualitative survey in November 2001. In the quantitative survey, a total of 64 members including seven Japanese experts were divided into three teams, each responsible for one of the three villages. The survey was carried out by visiting and interviewing with questionnaires the householders and female household members. The survey was carried out by social workers belonging to NGOs working in rural development activities, who frequent daily contact with villagers. The qualitative survey team consisted of a Japanese leader, a local consultant, a local PRA practitioner, and local NGO staff. The team visited the three target villages in order, and held focus group discussions and interviews with members of Grameen Bank and other MC organizations. By applying participatory survey techniques whenever appropriate, villagers were encouraged to talk about their real feelings. The leader groups in the villages were also interviewed, as well as the poor who were not members of the MC organizations.

The following section summarizes the main conclusions and key recommendations derived from this survey.



Field Survey Team Visiting Households

3.2 Impact of Grameen Bank

1) Economic Improvement

In the quantitative survey, more MC beneficiaries including Grameen Bank responded positively to the question “lifestyle improved” or “cash income increased” than non-beneficiaries. In addition, the “market price of livestock owned” by Grameen Bank beneficiaries exceeded that of other households. Microcredit beneficiaries, as a whole, also

surpassed non-beneficiaries in terms of “increased numbers of livestock”, “increased production assets (only in some areas)”, and “increased amounts of certain household goods”. In the case study part of the qualitative survey, many households responded in the following manner: “We are now able to have satisfactory meals”, “The house is improved”, “We can now afford to send our children to higher education”, “We have bought land”, and “The number of ducks and chickens has increased”. Despite several examples of failure, it is clear that MC led to augmented income in the majority of households. This trend indicated no significant difference between the Grameen Bank beneficiaries and other MC organization members.

2) Increased Savings

Grameen Bank makes it compulsory to set aside savings when starting a loan. Consequently, beneficiary households have increased the level of their savings. The quantitative results reveal that average savings reached 2,000 to 5,000 TK, with regional variations. This is equivalent to 1-3 months’ income in a poor household. In addition to these “compulsory savings”, an increasing number of MC beneficiaries tend to emphasize saving, and have opened fixed-term deposit or fixed-amount cumulative savings accounts (pension scheme) introduced by Grameen Bank. In the qualitative survey, many members also mentioned that “We no longer need more loans, but want to continue saving”. Saving needs are expected to become an even higher priority in the future.

3) Changes in Rural Financing

Microcredit is a financial system easily accessible by poor villagers. With the emergence of Grameen Bank and other MC organizations, traditional moneylenders have been forced to withdraw, disappearing completely in some areas. The situation has altered even in areas where moneylenders remain, resulting, for example, in a drastic decrease in interest rates. For example, a villager who gained an economic surplus through MC, extended interest-free emergency funds to relatives. This example shows that the inflow of MC funds has set changes in financing in progress.

4) Empowerment of Women

One common feature among women who are MC members is that many state that they have become “more active than before”, saying that weekly

opportunities to talk with a male fieldworker from the MC organization have enabled them to talk without hesitation to men outside their family. In addition, women are steadily expanding the scope of their activities. They have started visiting the union office and the health care center, in addition to the weekly visits to the MC group center and the branch office to receive funds. The quantitative results for Comilla also indicate that MC members go to the markets more often than non-members.

Many female MC members also talked about their position in the family. Comments recorded included: “My husband and I have started cooperating”, “We discuss how to use the loan”, and “My position in the family has improved because the loan is borrowed in my name”. The position of women is considered to be improving in line with MC-generated improvements in the household economy. However, in nearly all cases, MCs, including Grameen Bank’s, are utilized by male household members and it is exceptional for a woman to take the initiative and be primarily responsible for the family’s economic activities.

5) Robustness under Emergency Conditions

In Bogra, when farmers sustained devastating damage after the collapse of rice prices in 1991 and the drought in 1994, MC members also experienced major difficulties with loan repayments due to the drop in income. On the contrary, when the Comilla and Barisal areas were engulfed by severe floods, although damage to agriculture was sustained due to the high water levels, few repayment difficulties were reported. Some MC organizations, including Grameen Bank, took action to defer repayments but no additional remedies were needed. Microcredit members in Comilla and Barisal invested in non-agricultural targets and thus did not sustain as much damage from this natural disaster. MC investments in areas other than arable land thus reduced the influence of natural disasters such as floods, cyclones, and drought, which frequently occur in this country.

3.3 Impact Development Mechanism

1) Investing Behavior

Investment in a non-agricultural activity, or in a livestock business that provides a daily income, such as a transport service using rickshaws, sale of the goods available from the local marketplace, dairy farming and fish farming, etc. is likely to



General Merchandise Store Opened with Credit from the Grameen Bank

yield stable profits. Hereditary occupations such as bamboo/furniture craftsmen and carpenters can also result in many examples of successful MC use.

On the contrary, many non-profitable cases were observed within the investments in agriculture such as rice cultivation and vegetable planting. Grameen and most of the MC organizations adopt a weekly installment system, and thus in the case of agricultural investment, which is unlikely to earn cash on a daily basis, one of the determining factors for success or failure is the availability of a continued income source besides agriculture. This is also true when the loan is used for non-production purposes. There are numerous examples of success where investment targets are diversified, e.g. cultivation of rented land using extra funds while investing in dairy cows at the same time, and running a small cigarette shop whilst trading in timber. Such risk diversification is thought to be effective in villages where various risks exist such as natural disasters, disease, potential product price collapse, and loss/theft of production means. However, involvement in a business without prior experience has a higher risk of failure.

2) Precondition for a Beneficiary

When investing in non-agricultural activities, many successful cases were among those who had had prior experience in the activities they undertook. Considering the lack of sufficient training occasions offered by the MC organizations, a new business begun without prior experience seems unlikely to succeed. While there are also successful cases of new businesses, these cases are likely to be related to the individual (female or male) household's educational level. On the other hand, for those who have no trade experience, skills or edu-

cation, transport-related investments such as in rickshaws and vans yield a high rate of success. The quantitative result indicates that MC-member households include more earners. In one respect, by utilizing MC, women are now able to earn money from livestock, etc., however, the qualitative survey indicated that a family with more than one male earner is able to earn the daily cash needed for repayment easily, and deal with unexpected events such as diseases.

An analysis of the successful cases reveals that one of the preconditions for success would appear to be communication between husband and wife on how to use MC. This could mean that the wife has a certain level of control, and the husband works hard. On the contrary, factors that contribute to failure include a breakdown in cooperation between the couple, the departure of the husband, or the husband mis-using the loan.

An additional precondition for borrowers is that the husband, the main earner, does not die, divorce, or disappear. Since the borrower and the person who actually utilizes the loan are different, it is a significant condition that the adult male members of the household are healthy.

3) External Conditions

Many successful cases of MC initiated by Grameen Bank and other NGOs can be seen in Comilla and Barisal, but only a few were found in Bogra. This suggests that the utilization of MC is difficult unless economic opportunities other than agriculture are available. The success or failure of MC is also influenced by the overall economic situation in each area, not simply the non-agricultural opportunities. Gunjar village in Comilla has favorable conditions: it is close to a commercial center

in Companyganj, the roads are in good condition, and border trade in contraband with India is vigorous. In addition there has recently been a sharp increase in the number of migrant laborers outside the country. There is room for economic improvement in Birpasha village in Barisal. This village is located adjacent to the provincial capital, roads have recently been repaired, and the scale of the bazaar has expanded remarkably.

Another precondition besides these economic external conditions is that normal investment activities are not disturbed by accidents, in particular: natural disasters such as floods or droughts; disease or death of livestock and fish; criminal cases such as rickshaw theft; civil cases such as a dispute over property or land; political instability such as a general strike due to political confrontation. In Bangladeshi society there are many uncertainties and instabilities. Finding ways of reducing these risks is a common issue for MC organizations.

3.4 Problems and Challenges

1) Negative Impacts

As described above, MC organizations, including Grameen Bank, produce many positive impacts. However, this survey also revealed negative influences of MC. Specific examples include: increased dowries in economically improved households, and relationships among MC members worsening due to disputes over repayments. While the former is not necessarily a trend seen only in MC member households, this problem is seen from the viewpoint of human rights and empowerment of women. The amount of dowry influences the status of the woman in the family she is joining, and abuses may result. In the latter case, MC accentuates an attitude of emphasizing the pursuit of economic profits of each individual, and consequently will affect the practice of mutual help or collective actions.

2) Remaining Problems

Viewing Grameen Bank and other MC organizations from the standpoint of poverty reduction, MC has two remaining challenges: economic improvement and empowerment.

From the economic aspect, it is almost impossible for widows or extremely poor households without any adult males to join MC. These households are not only denied access to MC but also to nearly all development aid. As a result these households are in an even worse condition. Some landless house-



An End-user of the Grameen Bank

holds without trade opportunities or rickshaw businesses are not in such extreme poverty, but have difficulties in repaying weekly installments on MC due to their unstable income, and, as a result, often drop out of the scheme. For these people, MC does not provide any economic improvement opportunities. Within the three target areas in this survey, there are fewer cases of success in Bogra where dependency on agriculture is high. It is a task for the future to explore ways of enhancing the effects of MC in areas where non-agricultural industry is not flourishing.

In terms of empowerment, MC definitely helps women improve their status. However, this is limited to within the family, and female participation in society may not be increasing to any extent. From the viewpoint of gender equality, one specific future issue is that ultimately it is the male members of the family that utilize MC. In addition, MC has not developed any significant impact to counter the issues associated with good governance: lack of justice in the village, poor people being unable to expect a fair arbitration or trial, and incompetence of local administrative organizations. Even worse, it is possible that MC is inhibiting the promotion of collective self-help activities, and thus preventing the poor from jointly tackling the issues of justice and fairness.

3.5 Recommendations

1) Recommendation to Grameen Bank and Other MC Organizations as Financial Organizations

The MC scheme currently adopted by Grameen Bank involves the following issues: introduction of an insurance system that covers risks, a care system for members experiencing repayment difficulties or insolvency due to borrowing from various MC organizations, and diversification of the lending scheme. In addition, so-called “micro” level loans are not sufficient for increasing the number of households that utilize MC for commerce or manufacturing as their main income source. A new medium-size loan scheme will also be needed. In the meantime, increasing numbers of poor households are placing an emphasis on savings. A system should be further enhanced that allows continued savings without necessitating the frequent borrowing of loans.

2) Recommendation from the Viewpoint of Poverty Reduction

Approaches to the poor and empowering women should be enhanced. More specifically the following should be aimed at: improving the status of women through approaches to male household members; enhancing the participation of women in the management of MC organizations by increasing the number of female staff, and exploring MC utilization methods that promote the joint proactive activities for the poor. Empowerment cannot be achieved by economic improvement alone, and it is important to define microcredit from more diverse viewpoints.

Certain preconditions for the effective utilization of MC were also identified in the survey, for example, opportunities for cash income other than traditional agriculture, secured access to a marketplace, and adult male workforce (preferably two or more) in the household. However, there are those areas and households that do not satisfy these conditions. The majority of these are left at the bottom in socioeconomic terms. MC has not yet functioned as an effective tool to enable these people to emerge from poverty. Approaching these “left-behind people” is the first necessary step toward poverty reduction, the goal of MC organizations and NGOs.