Microfinance, Poverty Alleviation and Economic Development: Theory and Practice

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Abstract

Microfinance (MF) has recently been viewed to effectively contribute to poverty alleviation. This paper seeks to present an evaluation of MF with respect to economic as well as socio-ethical perspective based on secondary resources. In short the economic effects do not seem to be as encouraging as expected and the ways the concept of MF is being applied seem to have adverse socio-ethical implications. An alternative method of delivery seems to reduce or eliminate the negative effects and hence deserves serious attention. The unified value system that integrates all human and natural disciplines covers the field of economics that aims at human welfare by strategies, among other things to alleviate poverty. MF activities are expected to lead to substantial socio-economics development for the poor. The experience of Bangladesh which is the birthplace of MF as well as the largest experimentation case in the world shows positive results of MF activities. Although the outcome is not as impressive, some have serious doubts about any positive income effects. Besides the way the MF activities are being undertaken seem to raise serious socio-ethical concerns. A characteristic of the existing studies on MF is that they seem to be more or less one sided. They deal with economic implications of MF, merely its ethical and socio-cultural effects. The studies that discuss economic impacts of MF usually highlight positive income effects of MF activities. Whereas those that deal with socio-cultural effects express concern about undesirable effects of MF which have been reflected in the sentiments of the people of value orientations including a complain of religious conversion leading to social tension, unrest and conflict. An alternative example of MF activities is available, which seems to be free form the alleged undesirable ethical and socio-cultural effects. In fact the Islamic Micro financial Institutions (IMF) came into being with an objective to free MF activities from the alleged undesirable normative and socio-cultural implications. The MFIs even the largest ones including Grameen Bank and BRAC still depend on external sources of finance. The author suggested to undertake further studies on the out come of MF activities, socio-cultural effects of MF activities that hunt the religius feelings of the people, to reach the poorest of the poor, changes on the loans, remove the people from perpetual dependence on credit, external defense for finance and formation of a body to oversee the activities of the MFIs.

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1. Introduction

Unity of the single divine source of knowledge and the knowledge itself provides the normative foundation of a universal paradigm that integrates all the human and natural sciences, including the discipline of economics, which aims, among other things, at poverty alleviation as a prerequisite for human welfare. Poverty alleviation has multi-dimensional strategies, whereby microfinance has recently been viewed as an effective means towards poverty alleviation in developing countries. Thus microfinance should be evaluated by not only its efficacy of poverty alleviation, but also with respect to the unified value system on which the economic discipline is founded. Such a notion has been a motivational source and analytical framework for this paper.

Of late, a general notion in the rural development literature is that microfinance (MF) has been playing an important role in income growth of the rural poor and thus in poverty eradication and economic development. As a result, it is gaining wide coverage in development literature and, accordingly, it is receiving attention of the policy makers, international financial institutions, donor and philanthropic organizations, NGOs, academic seminars and workshops.

Since its inception in Bangladesh, many countries have introduced micro credit as well as MF, including Malaysia, where it has been introduced by the name of Amanah Ikhtiar. Several countries have established specialized banks merely for MF, including Grameen Bank of Bangladesh, and the planned *Microfinance Bank in Pakistan*.[1] The Asian Development Bank (ADB) formed a Task Force on MF to prepare its MF development strategy. The proposed strategy had then been approved by ADB on June 6, 2000.[2] A few thousand NGOs are engaged in the provision of micro credit in the developing world, too.[3] The Microfinance Summit 1997 held in the USA speaks further about the kind of attention that MF is receiving from the world.[4]

MF is provided by specialized banks created for the purpose, commercial banks, and NGOs, which are popularly called Microfinance Institutions (MFIs). A typical MF activity has the following key characteristics.[5] First, MF is normally provided to the rural poor.[6] Second, for MF, the poor households are mobilized into groups, ranging from 5 to 30 members per group, which takes collective responsibility of any loan taken by any group members. Third, MF is free from formal financial collateral.[7] Fourth, small loans amounting from US$ 25 to US$ 75 are extended usually for one

[1] Credit Development Forum (2000, p. 9).

[2] CDF (2000, p. 9).

[3] Credit and Development Forum (CDF) of Bangladesh reports micofinancial statistics on 533 NGOs. See CDF (1999), pp. 16-87. The growth rate of their membership is quite high as well (see Table A.2 in the Appendix).

[4] Microfinance Newsletter (2000), p. 10.

[5] Alamgir (1993), Alamgir (1997a), Alamgir (1999), CDF (2000), Hakim (2000), Hassan (2000), Hossain (1988), Hulme (1996).

[6] Unfortunately though, the MFIs could not reach the poorest of the poor in the rural areas (see Alamgir 1999, p. 77). Recently, a few NGOs have started MF activities with the urban poor as well, for example the NGO by the name of PROSHIKA (see Alamgir (1997d)).

[7] However, MF is not really free from collateral. Informal financial collateral exists in the form of forced un-withdrawable savings and, besides, strong peer pressure works as a collateral.

[8] See Appendix 1 for the sector-wise distribution of loans by 369 NGOs.

[9] Only some NGOs are trying to achieve self reliance, for example, ASA. See Alamgir (1997b).

year and are recovered in weekly installments. Fifth, loans are provided normally for petty trades, food processing, cottage industries, transport, livestock, etc.[8] Sixth, the field staffs of MFIs supervise the use of loans. Seventh, the members meet once a week, make payments of weekly installments, and also make weekly savings deposits with the respective MFIs. Eighth, the majority (as high as 90%) of members (borrowers) are women. Ninth, the MFIs depend heavily on external assistance for their operations.[9] Tenth, the loans are based on interest, which is usually about 30% per annum. However, recently, a few efforts can be noticed that are emerging in the field of MF with interest-free Islamic products, offered by the Islamic MF institutions (IMFIs). Their emergence is late, and also small in number and size.

Literature in the area of MF is mushrooming; many assessment studies have been conducted; and many seminars and workshops are being organized to discuss the effects of MF. The assessment studies are however one-sided. The formal mainstream studies concentrate mainly on the positive implications of micro credit, especially on its economic implications. They rarely give any attention to socio-cultural effects of MF in the rural areas, except for the issue of 'women empowerment' through MF. On the other hand, some other studies highlight only the socio-cultural effects of MF. In fact, some socio-cultural implications of MF seem to be creating serious concerns in many minds, especially in the minds of those who are interested in the preservation of faith based values and culture with income growth and economic development. Their studies highlight the socio-cultural effects of MF, which are not really considered as impact studies of MF, although they raise important social concerns related to MF activities. An attempt will be made here to bring together the two streams of assessments of MF.

The objective of this paper is to provide an analysis of the theory and practice of MF with special reference to the context referred to above, concentrating more on the application side. In doing so, we would like to start with a brief exposure to a theoretical relationship between MF, poverty alleviation and economic development in general, followed by an analysis of its application from an economic and socio-cultural perspective. As the nature and application of MF may vary from place to place, a generalized analysis of MF's economic and socio-cultural implications may be misleading and hence it may be appropriate to make reference to a particular case. Accordingly, the paper has chosen the experience of Bangladesh as a case, which is really the birthplace of the concept of MF and is the first as well as the largest case of experimentation. The paper will also cover the IMFIs in brevity.

The paper has the following schematic framework: (1) Introduction; (2) Microfinance, Poverty Alleviation and Economic Development; (3) Economic Implications of Microfinance; (4) Socio-cultural Implications of Microfinance; (5) Islamic Microfinance and its Implications; and (6) Concluding Remarks and Recommendations.

Sections 3 through 4 of the paper will be based on information collected from secondary sources: published materials including reports and publications of MFIs, seminar and workshop papers, journal papers, assessment reports, and also some informal interviews.

2. MICROFINANCE, POVERTY ALLEVIATION AND ECONOMIC DEVELOPMENT

The poor are poor because they are poor. Their income is low and hence they are unable to meet even the basic needs, and thus the question of invisible surpluses does not arise at all. They cannot afford to send their children to schools. They remain un-educated and unskilled, without innovative ideas. The natural and obvious outcome is that they suffer from low productivity and low income. The un-educated poor keep on producing unskilled people generation after generation with low productivity and low income. Poverty perpetuates due to poverty. The children remain poor because their parents were poor, leading to the vicious circle of poverty.

Investible resources are important for development of agriculture as well as non-farm activities in order to increase their income level, and thus for reduction of poverty and achievement of economic development.

The production function approach of growth may be denoted as follows:

$G = f(L, D, K, E)$

Where G = Economic growth; L = Labor; D = Land; K = Capital and E = Entrepreneurship.

The size of capital, K, is again determined by investment, I.

$K = g(I)$ .... with $g > 0$.

That is, investment contributes positively to the stock of K, which in turn contributes positively to economic growth. The poor, however, do not have access to investible resources to make investment, since they neither have investible surpluses of their own nor access to credit. The former is obviously due to their low income, which is often not enough to satisfy even their basic needs. The latter is due to the fact that the formal commercial banks are normally urban-based and, moreover, the poor lack collateral that is necessary to obtain credit from commercial banks. Thus, the lack of both investible resources and access to credit makes the poor quite vulnerable and trapped in the vicious circle of poverty.

The poor lack not only the investible resources; they lack as well ideas, confidence and basic skills of business. In this scenario, MFIs come to the rescue. The rescue comes from different dimensions.

2.1 The Ideas: MFIs come to the doorsteps of the poor with ideas. Their officers and field workers visit the poor households and provide them with ideas about small non-farm activities and enterprises, which may be attempted with the help of small loans, and give them some consultancy services. They try to assess their entrepreneurial potentials, and give them venture ideas in non-farm activities.

2.2 The Confidence Building and Training: The poor lack confidence in doing anything. With venture ideas, the MFIs try to develop the confidence in them that they are able to start non-farm activities and thus alleviate poverty. Not only this, the MFIs train them about some basics in business which they lack.[10]

2.3 Loans: With the ideas, confidence building and training, the MFIs extend loans,[11] which are really quite small, and are provided for one year.[12] This fills the resource gap partially.

An important characteristic of MF is that it is without any formal collateral that is normally needed by commercial banks. There are, however, non-formal collaterals. For example, in Bangladesh, there are several informal collaterals. First, borrowers of MFIs have to deposit a specified amount of weekly savings with the respective MFIs, which they cannot withdraw until the entire loan is re-paid. This works as a financial collateral. Second, the peer pressure works as strong collateral. In order to be eligible to get MF, the poor have to form groups of five to thirty members each, and a member may get a loan only if no other member has any overdue loan. Thus, each and every member works as a watch dog against any overdue loan. This peer pressure is a very powerful collateral indeed.[13] Third, personal guarantees from relatives, friends, and other respectable persons of the locality are also accepted by MFIs as an informal kind of collateral.[14]

2.4 Generation of Investible Resources: The MFIs help generate investible resources from internal sources. As already mentioned, the borrowers are forced to save a small amount every week and deposit this with the creditor organizations. This mini-savings generates the needed investible resources from within.

Thus, MFIs provide investible resources, venture capital, business ideas, and training that the poor lack in their efforts to go forward. With these, they can start new income generating activities (IGAs), expand the existing IGAs, and also invest in farming activities. This in turn provides self-employment, especially that of women, leading to income growth, food security, and capability to meet basic needs, which will increase adult literacy, education of the children, and social mobility and development. Thus, theoretically speaking, such MF activities are expected to lead to substantial socio-economic development in the project areas, especially of the MF borrowers, which in turn is expected to contribute to poverty alleviation and economic development in general.

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[10] Alamgir (1997b, p. 2).
[11] For example, in Bangladesh, MF varies from US$25 to US$ 75 in size. See Alamgir (1999, p. 13).
[12] Alamgir (1999, p. 4).
[13] See (Rahman et el, pp. 2, 7-9).
[14] Hassan (2000, p. 13).

3. Economic Implications of Microfinance

The economic effects include income growth and poverty alleviation, self-employment, asset ownership, food security, female participation in the labor force, and riba-based interest rural economy.[15] As the farming activities in most developing countries depend heavily on the generosity of nature, and hence are subjected frequently to natural calamities, MFIs tend to concentrate on non-farm activities for their credit facilities.[16] Although some reservations have been expressed, the economic effects of MF have been more or less accepted to be in the positive direction. Let us look into this.

3.1 Micro credit, Income Growth, and Poverty Alleviation

The prime objective of MF is to increase income of the poor, especially the rural poor, and thus alleviate poverty.[17] The general belief is that MF has been doing this all the while.

> *"The evidences presented in various studies provide a strong basis to conclude that microfinance programs lead to an increase in household income/expenditure and results in poverty alleviation".*[18]
>
> *"... (MFIs) have contributed to improving the quality of life of millions of people".*[19]

However, the income effect varies quite significantly from study to study and case to case. Rahman has provided the summary of 9 major studies and found that the positive income effects in these cases ranges from 8% to 40%.[20] This is quite impressive, but it is not clear if the income increase is in real terms or nominal.

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[15] As indicated earlier, we shall refer to the experience of Bangladesh with respect to the economic implications of MF.

[16] For example, in Bangladesh, microcredit is given for non-farm activities like petty trade, poultry and livestock, weaving, etc. See Alamgir (1999, p. 4).

[17] Hakim (2000, p. 7).

[18] Hakim (2000, p. 7).

[19] Hassan (2000, p. 2). Parentheses added.

[20] Rahman (2000), quoted by Hakin (2000, p. 7).

We may usefully have a quick look into some impact studies of MF, choosing a major MFI and a small MFI as a sample. A summary of an impact study on BRAC, one of the top few NGOs that provide MF in Bangladesh, is given below in Table 1.[21]

Table 1
Monthly income changes 'before and after the last loan' and at the time of interview

Borrower group	Average monthly income 'before' (Taka)	Average monthly income 'now' (Taka)	Percentage increase (nominal)	% increase adjusted by rural consumer price index	% increase adjusted by retail rice price index
First-time borrowers	1,575	1,792	13.8	6.6	1.1
Third-time borrowers	1,401	1,679	19.8	12.3	6.4
All borrowers	1,513	1,752	15.8	8.6	2.8

As is obvious from Table 1, income of the borrowers' nominal income has increased from 13.8% to 19.8% depending on how many times the borrower had access to credit. This seems to be quite an impressive income effect of MF. But if one looks at the income effect adjusted for retail rice price index, which is more relevant for the poor, the income effect is not very encouraging. As one can see, when adjusted for the retail rice price index, borrowers' monthly income changes 'before and after the last loan' were only 1.1% for the first-time borrowers and those of all borrowers were only 2.8%. The income effects are still positive but not very impressive.

[21] Source: Prepared from Tables 12.16 and 12.17 from Hulme (1996, p. 134).

Now let us refer to a sample study of ASHRAI, a small NGO providing MF, which is provided in Table 2.

Table 2
Economic Effects of Microfinance

Serial No.	Issues	Decreased/ Worsened	Same as before	Increased/ Improved
1	Family income	-	35 (21%)*	132 (79%)
2	Food and nutrition	-	59 (35%)	108 (65%)
3	Clothes	-	93 (56%)	74 (44%)
4	Health condition	-	94 (56%)	73 (44%)
5	Child education	-	63 (38%)	104 (62%)
6	Housing Conditions	-	128 (77%)	39 (23%)
7	Productive employment of members	-	33 (20%)	134 (80%)
8	Overall quality of life	-	21 (13%)	146 (87%)

Source: Alamgir (1997c), p. 63.

* Percentages and parentheses added.

The study shows some positive impact of MF, but it is not very impressive, either. A sizeable percentage of borrowers are still in the status 'same as before', meaning no change in their economic conditions. The conditions of the remaining borrowers have improved, but the degree of improvement is not clear.

Thus, the two studies reported above provide testimony to some positive impact of MF, which is not however as encouraging as expected theoretically.

Accordingly, some authors have clearly mentioned that the effects of MF have been marginal.

"However, while beneficiaries have registered improvement, the evidence on large-scale household-level economic graduation out of poverty is yet quite limited."[22]

On the other hand, we find that claims of positive income effects of MF did not go unchallenged. Some have cast doubt to such positive effects of MF. For example, a reputed economist of Bangladesh, Dr. Kholiquzzaman, may be quoted here.

[22] BIDS (1994), cited in World Bank (1996, p. 14).

"...these fashionably named projects- poverty elimination project and the project to augment the production ability of the poor, etc.- have not brought about any change in the economic structure in Bangladesh".[23]

Another author in MF, Adity Chowdhury, has also challenged the well-celebrated positive effects of MF. According to Chowdhury, nowhere has BRAC been successful in changing the socio-economic conditions of the poor. Instead,

"With its superior resources, BRAC has become new elite in the village, taking the place of political parties without a strong program to defend its activities." [24]

Thus the positive income effect of MF has been challenged by a number of researchers, analysts and economists.

An issue deserves attention in this area. Although poverty alleviation is a declared agenda of micro credit, it rarely reaches the poorest of the poor in the country. Ironically, micro credit reaches the better-off section of the poor, and not the poorest of the poor. Sometimes the programs include as high as 20%-30% non-target group members.[25]

"NGO programs have also shown a general inability to reach the extreme poor who constitute between 20 and 25 per cent of the rural population." [26]

It is not very clear why the poorest of the poor are excluded from MF. The reason is not expected to be non-availability of collateral, since MF is provided mostly with non-material collateral, which is even stronger than material collateral and is equally accessible to the poorest of the poor.

Thus, the income effect of MF does not seem to be as obvious as it is generally perceived. However, whatever is the magnitude of the effect; we may probably take MF as a contributor to income growth and poverty alleviation.

3.2 Self-employment and Wages

MF programs have been found to have increased self-employment, especially the self-employment of women. Access to MF enables the poor to increase the scale of their existing income generating activities (IGAs), initiate new non-farm IGAs, and rent in land for farming. Thus the MF borrowers have been found to have both higher and better employment than others among the rural poor with higher wages in non-farm activities.[27]

MF activities have significant effects on women participation in the labor force. MF is normally provided to women[28] and thus they get involved in economic activities in the non-formal sector (mostly self-employed activities).

[23] Islam (1998, p. 64).
[24] Chowdhury (p. 109).
[25] Hassan (2000, p. 8).
[26] World Bank (1994, p. 14)
[27] Hakim (2000,p. 7). Also see Zohir (2000) quoted in Hakim (2000, 7).
[28] About 90%-95% members of the MF groups are women. See Khan (2000, p. 10).

3.3 Ownership or Possession of Assets

Pro-MF studies show that MF has positive effects on asset ownership or possession.[29] These assets are of several kinds. First, the MF borrowers mortgage-in and rent-in more land than non-borrowers. Second, they have been observed to own more livestock assets, for example, poultry, goat, sheep and cows, as compared to non-borrowers. Third, they have been found to own more bicycles, wooden non-mechanized boats, and rickshaws, as compared to non-borrowers.

3.4 Food Security

MF borrowers are said to enjoy better food security. Food security comes from two sources. In the first place, with greater access to landed property, either by renting-in or mortgage made possible by access to credit, they have grown marginally more rice (the staple food) as compared to those who are not in the MF programs.[30] Besides, higher income from non-farm activities increases their accessibility to food market. They can afford to buy food from the market with their non-farm income.

Per capita expenditure on food for borrowers was 8% larger than that of non-borrowers of MF in the project villages of Grameen Bank, and 35% larger than of the target groups in the control villages.[31] A study of three MFIs shows that 77% of their targeted people in rural areas meet minimum calorie requirements, whereas only 59% of the hardcore poor meet only 80% of calorie requirements.[32]

Another study shows per capita calorie consumption of the poorest members in the BRAC area as 2335 Kcal as compared to 2133 Kcal for the non-member poor, an increase of 10% in calorie consumption.[33]

These studies show positive effect of MF on food consumption, which in turn bears witness to the degree of food security achieved by MF. This effect is appreciable, too, although it is not very substantial.

3.5 Women Participation in the Labor Force

Traditionally, women remain as housewives in Bangladesh, especially in the rural areas. They do household work, raise children, and so on. They are seldom employed in IGAs. However, as indicated earlier, most of the members of MFIs are women. About 549 NGOs restrict their membership to women alone for MF activities.[34] Another study shows that about 90% to 95% members of the MF groups are women.[35]

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29 Hakim (2000, p. 7); Zohir (2000)
30 Zohir (2000), Hakim (2000).
31 Hossain (1988)
32 Chowdhury (1996)
33 Hader (1998)
34 World Bank (1996, p. 12).
35 Khan (2000, p. 10).

Women get loans, which are meant for mostly non-farm activities, and are directly supervised by the MFI officers. MFIs want the women to engage themselves in economic activities, and attend office meetings, and they are the ones who are made responsible for repayment of loans. Therefore, it is rarely possible to transfer the loans to their male partners. Accordingly, the whole system requires that the women do the work, although their male partners may help them, even if some male partners do not like this. Thus, MF has undoubtedly increased women participation rate in the labor force.

Some authors, however, question the wisdom of preferring women for MF for creating jobs for women when unemployment rate of men is very high in the country.[36] They ask: "if the NGOs are interested sincerely in increasing the income of women, why do they not create a situation where the women could work together with their husbands"?[37] To them, preference to women will mean women's access to credit for economic activity when men are sitting idle at home unemployed. Besides, some housewives may be inefficient to run any activity, having so far been confined to houses as housewives. Probably this is the reason why in some cases women are used to getting the loans, which are actually spent by men.[38]

This is probably one reason why the Islamic Microfinance Institutions (IMFIs) do not give any preferential treatment to any sexes in the provision of MF[39]. In any case, MF increases female participation in the labor force.

3.6 Interest-based Rural Economy

MFIs operate mostly in rural areas.[40] The basis of their financing is interest.[41] They charge 25% to 30% rates of interest on their loans.[42] Except for a very small minority, the rural population has so far been avoiding interest, since it is prohibited in their religion[43] and, in addition, the rural areas are generally outside the coverage of commercial banking system. MFIs have covered a large part of rural Bangladesh by interest-based financing and thus the traditionally interest-free villages of MFIs projects have been turned into a interest-based rural economies.

This has created concern in the faith-based religious population of the country. Interest produces many socio-economic evils and hence it has been prohibited in all the divine books, including Al-Qur'an,

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36 Nuruzzaman (1997, p. 40).

37 Ibid. p. 40

38 This is based on informal interviews of the present author (the discussant) with a cross-section of the people in the society.

39 This is with the exception of one MFI, which deals only with men.

40 Recently, one or two NGOs have covered urban slums, too. For example, the Shakti Foundation is an urban replication of rural based MFIs. See Rahman (1999).

41 Recently, some Islamic NGOs started operations without interest at a limited scale, for example, Muslim Aid Bangladesh, and Al-Falah (Dinajpur) See Hassan (2000).

42 See Alamgir (1999, p. 4).

43 More than 85% of the population of Bangladesh is Muslim, traditionally religious in their lifestyle, practicing the Islamic injunctions and rituals. Interest on loans, which is called riba in Islamic language, has been declared prohibited in this religion, and this ruling is quite strictly followed in rural Bangladesh. Besides, rural areas are outside the coverage of banking services. As a result, rural Bangladesh has so far been free from riba. It does not mean that the rural Bangladesh is totally free from this. In the absence of banking services, some of the very poor inhabitants, who are in dire need of money due to natural calamities or to meet the ceremonial expenses of some social functions such as wedding of their children, borrow money from friends and relatives free of charge. When this source is not available, some of them resort sometimes to the village moneylenders for loans. They charge exorbitant rates of interest, sometimes ranging from 100% to 200% per annum. Such loans, however, are rarely used. Thus, the rural areas are more or less free from interest.

which contradicts the unified value system that is supposed to integrate socio-scientific reasoning.[44] As a result, some Islamic NGO's have come up with interest-free financial products in the form of IMFIS.[45]

4. SOCIO-CULTURAL IMPLICATIONS OF MICROFINANCE

The socio-cultural implications include women empowerment, literacy and school enrolment, social mobility, fertility and contraceptive use, family relation, social conflict, political impact, westernization of lifestyle, neutralization and secularization of local faith and culture.

4.1 Women Empowerment, Implications and Concerns

MFIs have adopted a strategy of women empowerment in a man-dominated family structure,[46] and thus give preferential treatment to women for providing credit facilities, since about 90% to 95% members of the MF groups are women, and 549 NGOs deal only with women for micro credit.

Access to credit, income generation and the resulting economic role and power have improved the role and status of women in the family and society. Studies show that MF has, among other things,

> *"Helped raising income of the family thereby raising status of the women; created self-employment opportunities for women; helped establish women's control on income and asset of the family; helped women to enhance their own standard of living; and accorded power to and greater control over family decision making."* [47]

But women empowerment seems to be quite costly for women, too.

> *"She has to make time to attend weekly group meetings adjusting the usual domestic works. Sometimes the group meeting venues are quite far away from her residence and she has to undertake arduous travel on foot. In case of the loans being used by the male members, she has to run into scuffle with the dominating male member to slice out provision for repaying installments to save face in the weekly meetings. In case of her inability to fetch fresh loans as per expected date and amount, she has to face wrath of the male counterpart on return from the meeting. She has to face wrath of and humiliation from the field functionaries of MFIs in case of default for reasons of non-cooperation of the male counterpart."*[48]

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[44] The socio-economic effects of interest have been well celebrated, and an alternative financial system has been provided, in the contemporary literature of economics, banking, and finance, which has been put into practice world-wide with commendable success.

[45] See below for IMFIs.

[46] Rural Bangladesh has a man-dominated family structure, which is more or less true everywhere in the world. However, illiteracy and poverty make the women even more vulnerable in rural Bangladesh.

[47] Khan (2000, p. 11). Some Islamic banks are also providing interest-free small loans without interest, for example, Islami Bangladesh Ltd.

[48] Ibid, pp. 11-2

Some authors have also raised some other socio-economic concerns about women involvement in MF aetivities. Let us start with an observation by some pro-MF authors. In a recent paper Wahid and Maxwell expressed concern in the following statement:

> *"Nonetheless, the Grameen Bank has also to show caution and care in its operation in the countryside. In some sporadic incidences Bank staff and borrowers were found to be involved in activities that could potentially hurt the religious feelings and social values of still largely conservative rural population."* [49]

Some others are more critical of women empowerment agenda due to its socio-cultural implications. First, it is claimed to have affected the family relations and family power structure by weakening the dominance of man in the family. The reversal of family dominance or, at least, installation of women power in the family has been alleged to affect family relations, leading to family problems in some cases.

> *"In these (microcredit) project areas, the husbands often complain that their wives disobey them. They go to meet the NGO officers against their will. As a result, family disputes arise, leading finally to divorces... The NGOs provide free legal aid to women to facilitate divorce. Thus, the divorced women get into western lifestyle. Needless to say, women thus fall into the trap of Christians and get converted to Christianity."* [50]

Second, women empowerment through microcredit is also alleged to have produced an effect of westernization and cultural de-Islamization. The requirement of members' attendance to weekly meetings and participation in them, trips to health centers and MFI offices have affected the adherence to the traditional Muslim culture and values of strict dress code (hijab) and non-interaction with men other than the husbands.[51]

Empowerment of women to raise their social status is appreciable. But the situation does not seem to be as simple. The way it is practiced through MF seems to have produced social and ethical concerns worthy of investigation. Therefore, the MFIs as well as the MF researchers should look into the socio-cultural effects of this strategy carefully and look for remedies.

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49 Wahid (2000)

50 Nuruzzaman (1997, pp. 40-41).

51 Rural people are traditionally religious, women wear hijab (Islamic way of covering body), and they avoid free-mixing with the opposite sexes. MFIs require the members (mostly women) to attend weekly meetings with the officers of MFIs and male members. "The Grameen Bank (the largest provider of microcredit) has made physical training and parade compulsory" (Jallabadi 1997, 41) The women, who have so far been confined to only one male partner (husband), come suddenly in contact and company of other men. The sudden exposure to other men, their close proximity and interaction in the frequent (weekly) meetings may naturally turn on the biological feelings to the opposite sex which, coupled with the affected family relations indicated above, is alleged to create serious complications in family relations, and to damage Islamic socio-cultural values related to dress code and extra-marital relationship. Some of the NGOs distribute condoms and other easily applicable birth control pills free of cost in the name of family planning and female health (Jallabadi 1997, p. 94), which can obviously facilitate a type of relationship that is socially unacceptable in rural Bangladesh.

4.2 The Alleged Hidden Agenda and the Social Conflict

It is alleged that some NGOs, who are involved in MF, have the hidden agenda of missionary activities and neutralization of local faith, to convert the poor to Christianity, both non-Muslims and Muslims. They are alleged to use MF as an instrument of such hidden agendas.[52] It has been reported that literature on the superiority of Christianity over Islam is distributed to the members of the NGOs[53], which distort Islamic beliefs. According to them, many people have already been converted to Christianity, including some Muslims.[54]

According to some authors, such missionary activities, along with the alleged faith-neutralizing effects of women participation (westernization, free-mixing, abandonment of hijab, family relation problem, etc.), created concerns among the Muslim population, which have been reflected in writings (media statements and features, booklets and books), anti-NGO demonstrations, protest meetings and gatherings, strikes and conflicts.[55]

The World Bank has indicated about religio-cultural effects of some NGO activities, which are financed by foreign sources. "Government officials are sometimes worried that foreign funds may be used for "anti-national" and/or "anti-social" activities. These worries span the spectrum from armed insurgency to religious proselytization." [56]

Some expressed concern that NGOs promotes secularism and atheism.

> *"The NGOs are making people secular and atheists. They advise people in different ways not to pray Friday prayers and five prayers a day. They are dead against hijab; they tell the people that hijab is against modernization."* [57]

[52] Quite a number of NGOs are said to be involved in missionary activities in the name of relief, poverty alleviation and microcredit activities. Among those which are directly involved in such activities include CARITAS, Baptist Missionary Society, Baptist Aid Mission, Christian Reformed Relief Committee, Mennonite Central Committee, Missionaries of Charity, Rangpur-Dinajpur Rural Service, Bangladesh Lutheran Mission, Finish, and so on. See: Jallabadi (1999, p. 263). See also-Ali, Mohar (1965) P. 156-74

[53] For example, raising such question as this: when Islam's Prophet is unable to save even his daughter, Fatimah, then he cannot do intercession for believers to save them in the Day of Judgment See Nuruzzaman (1997, p. 44).

[54] Statements of several Christian converts, who were Muslims (including some Haji Muslims) earlier, have been published to the effects that they have gained a lot spiritually (reaching closer to God) by converting to Christianity after leaving Islam. Essence of some other statements by some Christian converts from Islam are as follows: Islam's claim of peace and its bloody wars are inconsistent. There is no life in Islamic rituals, but they are merely some mechanical forms without any substance, and hence these have been abandoned by them. Prayer is performed in such a language that is not understood, and so on. See Nuruzzaman (1997, p. 41-45).

[55] For example, a huge gathering of people was held in Manik Mia Avenue, and was addressed by many national figures. See the Daily Sangram, 1 May, 1996, cited in Jallabadi (1999, pp. 475-476). The report of converting 25 Muslims into Christianity in the Cox's Bazar area led to serious tension and unrest in the area, including protest meetings, strikes, street demonstrations, and clashes with police, arrests and so on. See the Daily Sangram, 24 October, 1992, cited in Jallabadi (1999, pp. 442-443).

[56] See World Bank (1996, p. 46). Accordingly, the government of Bangladesh was said to be forced to investigate the activities of the NGOs, which led to the banning of some NGOs. But the government was forced to reinstate them within a short period of time due to outside pressure. See Islam (1998), pp. 65-66).

[57] Daily Inqilab, 13 February, 1993, cited in Nuruzzaman (1997, p. 39).

As a consequence, the religious groups and the concerned people of the country have been naturally against the missionary activities of NGOs,[58] which created a cold war between them and such NGOs who have established strong bases and power in the rural areas by group formation for micro credit. This enmity has been transmitted to national politics as well.[59]

4.3 Literacy and School Enrollment

Higher income, outside exposure, and appreciation of the value of education through outside interaction are expected to motivate the rural poor to go for education. Accordingly, it has been found that adult literacy rate is higher among the borrowers as compared to non-borrowers. It has also been found that the chance of both boys and girls (aged 5-9 and 10-14) to get enrolled in schools is higher among MF borrowers, which is an encouraging effect of MF.

4.4 Social Mobility

Although MF does not increase social mobility of women significantly, it is nonetheless observed that their visits to health centers and NGO offices are much higher than the non-borrowing women.[60] Obviously, their attendance in the weekly meetings, interaction with MFI officers and other members (both women and men), lead to higher social interactions, which might eventually lead to higher social mobility.

4.5 Fertility and Contraceptive Use

Zohir studied the impact of MF on family planning and found positive effect of MF on contraceptive use for birth control.[61] Women borrowers are busy in economic activities and get access to ideas about birth control methods through outside interaction. Some of the NGOs are said to encourage contraceptive use, and some of them even supply means of birth control. All these lead to higher use of contraceptives as compared to non-borrower women. Zohir's studies also show that female methods dominate, which is expected since most rural male partners are reluctant to use contraceptives, and because the women get exposed to birth control ideas and means and also to men other than their husbands.

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58 The degree of such concerns may be understood from the fact that several books and booklets have been written to expose such missionary activities of the relevant NGOs, for example, Jallabadi (1999) and Nuruzzaman (1997). Many features have been published in some concerned national dailies, for example, (1) Daily Inqilab 5 August 1996; (2) Daily Sangram, 9, 13, 14, and 28 April 1994, 16 May 1998, 28 November 1997, October 1995, 23 July 1998; (3) Daily Bhorer Kagaj, 7 July 1992; (4) Daily Dinkal, 25 October 1996; (5) Daily Millat, 30 July 1997, cited in Jallabadi (1999, pp. 140- 486).

59 According to some political analysts, the NGOs played an important role in causing poor performance of the Islamic parties in the last election. The campaign and propaganda by dominant NGOs that "loan facilities will cease if the Islamist group came to power," and that "the Islamic groups will stop women from coming out of their homes", etc., worked against Islamic groups (see Jallabadi (1999, pp. 356-361)). In particular, the NGOs have been alleged to have tactfully, and sometimes forcefully, manipulated the women voters to cast their votes in favor of secularist candidates in the last election, who would support their de-Islamising activities (see Jallabadi (1999, p. 279)).

60 Hakim (2000).

61 Zohir (2000).

The vast majority of conservative rural poor and the religious conservatives are critical of the use of contraceptives since, firstly, it is considered inconsistent with the religious faith and, secondly, the accessibility of contraceptives facilitates undesirable extramarital relationship in a situation when women are suddenly exposed to other men after being confined to one partner all the while, or being unmarried and divorced/widowed.

5. ISLAMIC MICROFINANCE AND ITS IMPLICATIONS

The negative effects of social as well as economic[62] nature attracted the critics to provide alternatives, which will be free from the negative effects. Some of them have come up with faith based microfinancial services, and are categorized as Islamic Microfinance Institutions (IMFIs). They and their services are different from their secular counterparts in a number of ways. Some major differences are as follows:

First, the IMFIs provide micofinancial products, which are free from interest. Their products are based on mark-up pricing, profit sharing and so on.

Second, the IMFIs provide microfinancial services to both men and women, without any differential treatment.[63]

Third, the IMFIs require Muslim dress code for the women to attend the group meetings, and discourage free mixing and unnecessary interaction with men other than their husbands.

Fourth, the IMFIs do not promote or encourage contraceptive use, nor do they provide such birth control devices.

Besides overcoming the alleged negative effects of secular styles of microfinance services, the IMFIs seem to produce positive effects that are quite similar to the secular MFIs. This is evident from the study conducted by Hassan.[64] The comparison between IMFs and IMFIs may be seen in Table 3.

As it may be seen from Table 3, the MFIs and IMFIs are not very different in terms of target groups, criteria applied for selection of members, area of operation, programs, group size, frequency of meeting, terms and conditions of savings, and terms and conditions of loan. It is interesting to note that IMFIs can provide similar services with similar effects minus the alleged elements of negative effects of secular MFIs. Besides, unlike the MFIs, the IMFIs are self reliant and are not dependent on external sources of finance.

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62 Especially the concern related to the spread of riba in the overwhelmingly riba-free rural economy.

63 Although, one IMFI limits its membership to men only

64 Hassan (2000)

In particular, we may look into the Islami Bank Bangladesh Limited, which has recently embarked on its MF activities. As of September 1998, IBBL already had 12115 members, with 7980 members taking investment from IBBL (see Table A.3 in the Appendix). IBBL's investment in the MF areas is larger in size (US$60 - US$500)[65] and is meant for a longer duration of up to 3 years[66] (see Table A.4 in the Appendix), which are beneficial for the members. Unlike other MFIs, IBBL invests in agriculture as well as petty manufacturing in rural areas, which should contribute to rural development (see Table A.5 in the Appendix).

In short, although the emergence of IMFs is late, they have marked their presence with appreciable provisions and results, but they do not have the kinds of undesirable socio-cultural implications that exist in the case of MFIs.

Issues	Islamic NGOs	Secular NGOs
Target group of NGOs	Generally rural poor are the target population. Members can own maximum of 0.5 acres of land. Islami Bank also includes marginal farmers having maximum of 1.5 acres of land.	Generally rural poor are the target population. Members can own maximum of 0.5 acres of land.
Criteria applied for selection of members	Land ownership criteria	Land ownership criteria
Area of Operation	Rural area	Rural area
Gender	Both men and women are included in the groups. One NGO within the sample work only for men. Clear bias is to accept men but Islami Bank prefers women.	Normally, women are preferred by NGOs to form groups, although a small percent (5-10%) of members are men. One NGO within the present sample of NGOs work only for women.
Programs	Mainly micro-investment	• Mainly microcredit • Non-formal Education • Water and sanitation
Group size	5 to 30 members per group/society	5 to 30 members per group/society
Terms and Conditions of Savings		
Frequency of meeting	Weekly/monthly	weekly/monthly
Savings of members	Taka 5-10 per week	Taka 5-10 per week
Interest/profit paid on savings	Variable: 5-6% per annum	5-6% per annum
Other savings instruments	None	None
Withdrawal of savings by members	Members are allowed to withdraw certain percent of savings.	Members are allowed to withdraw certain percent of savings.

65 The relevant size for MFIs varies from US$25 to US$75.

66 MFIs extend loans for one year.

Issues	Islamic NGOs	Secular NGOs
Terms and Conditions for Loan		
Amount of loan Minimum Maximum	 Taka 3000 Taka 15,000 (Islami Bank)	 Taka 3000 Taka 10,000
Duration of loan	One year	One year
Rate of interest/mark-up	12-15.5% mark-up	30% rate of interest per annum
Mode of repayment	Weekly installments	Weekly installments
Type of loan	Islamic mode of investment is used - mainly bai' muazzal (sale on credit.)	Loan is provided in cash.
Activities financed	Common activities available in rural areas especially petty trading, rearing poultry and live stock, agricultural input, shop-keeping, rural vehicles	Common activities available in rural areas especially petty trading, rearing poultry and live stock, agricultural input, shop-keeping, rural vehicles
Multiple loan	Only one loan at a time	Only one loan at a time
Sources of Fund	• Members' Savings (in case of Islami Bank - depositors' savings) • PKSF	• Members' savings • PKSF • International donors
Future Trends	Expansion Financial viability Institutional strengthening	Expansion Financial viability Institutional strengthening

Source: Survey of 12 Secular and Islamic NGOs, quoted from Hassan (2000, pp. 37 - 38).

6. Concluding Remarks

(1) The unified value system that integrates all human and natural disciplines covers the field of economics that aims at human welfare by strategies, among other things, to alleviate poverty. Microfinance (MF) has recently been viewed to effectively contribute to poverty alleviation. This paper seeks to present an evaluation of MF with respect to economic as well as socio-ethical perspective based on secondary resources. In short, the economic effects do not seem to be as encouraging as expected, and the way the concept of MF is being applied seems to have adverse socio-ethical implications. An alternative method of delivery.

(2) In theory, MF activities are expected to lead to substantial socio-economic development for the poor. The experience of Bangladesh, which is the birthplace of MF as well as the largest experimentation case in the world, shows positive results of MF activities, although the outcome is not as impressive, and even if some have serious doubts about any positive income effects. Besides, the way the MF activities are being undertaken seem to raise serious social concerns, which seem to have affected religious feelings of the people by affecting local faith and culture, leading to social unrest and conflicts, transmitting the effect even to the national elections.

(3) A characteristic of the existing studies on MF is that they seem to be more-or-less one-sided. They either deal with economic implications of MF, or merely its ethical and socio-cultural effects. It is an irony that the formal assessment studies on MF do not cover the normative and socio-cultural effects of MF. In our view, they should be taken into consideration, since there should not be any trade-off between values and economics and, especially, when any human discipline is supposed to be based on the universal value system, leading to concerns of a large number of affected people in the society and faith based social as well as political leaders.

(4) The studies that discuss economic impacts of MF usually highlight positive income effects of MF activities, whereas those that deal with socio-cultural effects express concern about undesirable effects of MF which have been reflected in the sentiments of the people of value orientations, including a complain of religious conversion, leading to social tension, unrest and conflict, protest demonstrations and gatherings, booklets, books, and media coverage. Some important concerns have to do with 'interest' and that originating from pre-dominantly 'female membership' in group based financing, affecting norms and values of the people such as dress code, free mixing leading to extra-marital relationships, divorces, and so on.

(5) An alternative example of MF activities is available, however, which seems to be free from the alleged undesirable socio-cultural effects. In fact, the Islamic Microfinancial Institutions (IMFIs) came into being with an objective to free MF activities from the alleged undesirable normative and socio-cultural implications, including 'interest' dress code, free mixing and the resulting outcome as well social sentiments. Interestingly, their economic outcomes seem to be similar minus the alleged negative socio-cultural effects. It will be very interesting if the existing large MFIs try at least one small project along the line of IMFIs.

(6) The MFIs, even the largest ones including Grameen Bank and BRAC, still depend on external sources of finance. They should find ways to minimize such dependence to be self-sufficient gradually.

(7) Any new thing is expected to have repercussions. MF is definitely a welcome effort, which is needed in Bangladesh, especially in rural Bangladesh, and which has been producing positive results. However, we should not deny the fact that there is room for improvement. We should probably appreciate the Japanese corporate culture of kaizen, a policy and tradition of continuous improvement even in the field of microfinance, and obviously the priority areas of improvement lie in the socio-cultural dimensions.

Recommendations

With respect to extending finance for poverty alleviation through MF activities, several suggestions and recommendations may be made.

- First, the MFIs and the MF researchers should study why the economic outcome of MF Activities is not as sizeable as expected.
- Second, the MFIs and the MF researchers should study the ethical and socio-cultural effects of MF and should take care of them as soon as possible.
- Third, those MFIs that are alleged to have hidden agenda should review their activities, and refrain from such activities, if any, that include the religious feelings of the people.
- Fourth, efforts should be made to reach the poorest of the poor for microfinance, who seem presently to be left out.
- Fifth, the MFIs should see whether they could reduce the charge on their loans, which is about double the rate charged by commercial banks at present.
- Sixth, an effort should be made to make the borrowers self-sufficient in a gradual manner, instead of their perpetual dependence on credit that seems to be the phenomenon at the moment.
- Seventh, the MFIs should try to be self reliant to be free from the influence of foreign donors.
- Eighth, a consultative body may usefully be formed consisting of social leaders, both secular and faith based, to sort out issues of concerns. It would also be useful to have dialogues with people of different orientations to minimize the concerns and inter-group tensions.

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APPENDIX

Table A. 1

SECTOR-WISE DISTRIBUTION OF LOANS OF 369 NGOS

Sectors	Percentage of disbursement (up to June 1998)
Agriculture	12.19
Fisheries	4.33
Food processing	10.17
Small business	42.13
Cottage industries	2.83
Transport	3.39
Housing	1.49
Health	0.51
Education	0.04
Livestock	17.94
Others	4.81
Total	**100**

Source: CDF, 1998, quoted from Alamgir (1999, p. 15).

Table A. 2

LIST OF SOME TOP NGOs IN TERMS OF MEMBERSHIP GROWTH

Name of Organization	Active Membership (in 000)	
	June 1999	December 1999
BRAC	2,711	3,057
PROSHIKA	1,396	1,453
ASA	1,072	1,179
SWANIRVAR BANGLADESH	688	694
THENGAMARA MOHILA SABUJ SANGHA	275	299
RDRS-BANGLADESH	238	232
CARITAS BANGLADESH	217	264
BURO-TANGAL	76	67
SOCIETY FOR SOCIAL SERVICE	60	58
BEES	58	66
HEED BANGLADESH	58	64
BAWPA	53	57
PRODIPAN	51	49
SHAKTI FOUNDATION	44	50
VOSD	43	46
SAMATA	42	42
ARBAN	39	40
JAGORONI CHAKRA	37	37
CODEC	36	38
TOTAL	**7,196**	**7,792 (8%)**

Source: Prepared from CDF (1999, 7)

Table A. 3

KEY INDICATORS OF MF ACTIVITIES BY ISLAMI BANK BANGLADESH LTD. (IBBL) (September 1998)

Indicators	Achievements
Number of Branches	45
Number of Villages Covered	148
Number of Centers	597
Number of Groups	2423
Number of Members	12115
Number of Borrowers	7980
Cumulative Disbursement Since 1996 (Taka Million)	105.3
Loan Outstanding (Taka Million)	36.5
Rate of Recovery	96%

Source: IBBL, 1998, cited in Hassan (2000).

Table A. 4

SECTORS OF INVESTMENT OF IBBL, INVESTMENT CEILINGS AND ITS DURATION

Sectors	Investment Ceiling (Taka)	Duration of Investment	Other Conditions
Crop production	10,000	One year	21 selected crops
Fisheries	25,000	Three years (max.)	
Irrigation	5,000	One year (max.)	
Agricultural equipments	25,000	Three years (max.)	Equity 10%
Non-farm activities	10,000	One year (max.)	343 items
Rural transport	5,000	Two years (max.)	
Tubewell	3,000	Three years (max.)	At least 2nd time borrower
Housing materials	15,000	Three years (max.)	At least 3rd time borrower

Source: IBBL, 1998. {Exchange rate (approx.) US$ 1 = Taka 50}.

Table A. 5

SECTOR-WISE MF ACTIVITIES OF IBBL (UNTIL NOVEMBER 1998)

Number	Areas of investment	Cumulative number of clients	Cumulative disbursement (Taka in million)
1	Agriculture	2385	15.09
2	Manufacturing	551	3.95
3	Services	1572	9.69
4	Trade	6674	42.40
5	Shops	2012	13.75
6	Feri	191	1.26
7	Nursery	75	0.51
8	Livestock	5413	35.98
	Total	**18,879**	**122.63**

Source: IBBL, November 1998. {Exchange rate (approx.) US$ 1 = Taka 50}.