FINANCING MICROCREDIT FROM THE GOVERNMENT: EXPERIENCE OF PKSF[1]

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1.0 THE SETTING UP OF PKSF: THE CONTEXT

With the success of Grameen Bank's program many large NGOs in Bangladesh introduced microcredit program for their target groups. Smaller NGOs followed the same path. But the smaller NGOs lacked adequate financial support for their microcredit program. However, there were not many donors ready to come up with funds for microcredit programs for these small, locally based NGOs. At the same time, for those which received some support there was no guarantee about the continuity of donor funds. However, NGOs had gradually acquired some skill and organizational strength to organize local poor people and to extend financial services to them. In this context, GOB set up the Palli Karma Sahayak Foundation (PKSF) in May 1990 as an apex organization to provide loans to the NGOs which in turn would provide collateral free credit to their poor members and to provide advisory services and training to NGOs for enhancing their institutional capacity. PKSF, set up as a "company not for profit" by the government is unique in its character and operations.

2.0 OBJECTIVES OF PKSF

PKSF was set up in 1990 by the Government of Bangladesh with an overall objective of alleviating poverty and improving the quality of life of the rural poor – the landless and the assetless people by providing them with resources for creation of employment for enhancing economic conditions. The major specific objectives of PKSF are:

a) to provide various types of financial help and assistance to non-government, semi-government, and government organizations voluntary agencies and groups, societies and local government bodies, so that, as Partner Organizations (POs) and in consistence with the PKSF's image and objectives, they can undertake activities with a view to generating income and employment opportunities among the economically most disadvantaged groups in the society.

b) to assist in strengthening the institutional capacity of POs, so that they can manage their program in a sustainable manner.

3.0 OPERATIONAL STRATEGY OF PKSF

The basic operational strategies of PKSF have been drawn from its objectives:

a) It does not directly lend money to the landless and the assetless people rather reaches its target groups through its POs, the delivery mechanism for reaching the poor.

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b) It provides greater thrust to institutional development.

c) It favors no particular model, instead innovations and different approaches based on experience are encouraged.

4.0 LEGAL STRUCTURE OF PKSF

Legally PKSF is a "company limited by guarantee" meaning "company not for profit" and is registered under the Companies Act of 1913/1994 with the Registrar of Joint Stock Companies. The legal structure of PKSF allows flexibility, authority and power to take programs and implement them throughout the country and managing its affairs.

5.0 FUNDING OF PKSF

PKSF mandate authorizes PKSF management to mobilize funds in the forms of grants, loans and contributions from a wide variety of sources which include the Government of Bangladesh (GOB), private individuals and organizations, foreign governments, international donors and lending agencies and capital markets.

So far PKSF has received funds from the GOB, the IDA/World Bank, USAID and ADB.

6.0 ORGANIZATIONAL STRUCTURE AND MEMBERSHIP

6.1 General Body

Maximum number of the members in the General Body will be 25, out of which government may nominate not more than 15 members from amongst persons associated with government agencies, voluntary organizations or private individuals. The remaining 10 members may be from amongst persons representing POs and/or private individuals. The General Body usually meets once a year for overall policy guidance. Presently, PKSF has a General Body of 16 members consisting of distinguished personalities of the country.

6.2 Governing Body

The composition of the Governing Body is as follows: (i) Chairman of PKSF (nominated by the Government), (ii) the Managing Director (appointed by the Governing Body), (iii) two members nominated by the Government; and (iv) three members elected by the General Body. That Makes a 7-member Governing Body of PKSF. The present Governing Body comprises persons of international repute including Professor Mohammad Yunus, Managing Director of Grameen Bank.

6.3 Chairman

The Chairman of PKSF is nominated by the Government from persons not in service of the Republic, usually for a term of three years. The present Chairman is a leading economist and a Professor of Economics at Dhaka University.

6.4 Managing Director

The Managing Director is the Chief Executive Officer (CEO) of PKSF. The present Managing Director has been appointed by the Governing Body. He is the ex-officio member of the Governing Body.

6.5 Management

PKSF has four divisions as follows: a) Small and Medium POs' Loan Operations Division; b) Big POs' Loan Operations Division; c) Administration Division; and d) Audit Division. Loan Operations Divisions are the program divisions of PKSF that select POs, disburse and recover loan, monitor and evaluate programs and provide on-site technical assistance and advisory services to POs. The internal audit division reports directly to the Managing Director.

PKSF has a small research and a training units to conduct research related to poverty alleviation and to impart training to the staff of POs. These units are under the Administration Division.

PKSF from its inception has been following a policy of recruiting officers with high academic standing. PKSF has Programs to train its Officers and Staff to increase their efficiency and skill.

7.0 ACTIVITIES OF PKSF

As an apex financing institution involved in long term financing of organizations with microfinance services, PKSF puts utmost emphasis on attainment of both financial and institutional sustainability by these organizations. In order to achieve the objective of sustainability. PKSF performs the major functions expected of an apex organization. These include, among others:

a) Provision of revolving loan funds to MFIs

b) Developing best practices for microcredit management and operations of MFIs

c) Institution/capacity building support to MFIs

d) Lobbying for appropriate policies and regulations useful for the expansion of microfinance sector

Each of the functions are detailed below:

7.1 Provision of loanable funds to MFIs

PKSF presently provides revolving loan funds to its 228 POs – 10 big, 218 small and medium under its mainstream credit program as well as under some projects.

The mainstream credit program includes the following components: (i) Rural microcredit (ii) Urban microcredit, (iii) Microenterprise credit; and (iv) Hardcore poor microcredit.

The projects under which credit funds are provided include (i) Second Participatory Livestock Development Projects (PLDP-II), (ii) Integrated Food Assisted Development Project (IFADEP) (iii) South-West Flood Damage Rehabilitation Loan Programme (SRLP); (iv) Financial Services for the Poorest (FSP);. (v) Micro-Finance and Technical Support (MFTS) Project; (vi) Micro Finance for Marginal & Small Farmers (MFMSF) project; (vii) Programmed Initiatives for Monga Eradication (PRIME); and (viii) Learning and Innovation Fund to Test New Ideas (LIFT).

7.1.1 *Features of PKSF Credit Program*

a) PKSF provides loans to three categories of POs- Organizations Operating in Small Areas (OOSA), Big Partner Organizations Operating in Large Areas (BIPOOL), and Potential OOSA organization (POOSPO).

b) PKSF charges 4.5% service charge per year from its OOSA and Pre-PKSF category POs and 7% service charge per year from its BIPOOL category POs.

c) Loan received by POs from PKSF are repayable within a period of 3 years. First 6 months are considered as a grace period and loans along with service charge are to be repaid in 10 quarterly installments within the rest 30 months.

d) PKSF charges 1 to 1.25% service charge for the hardcore poor program and institutional development program.

7.1.2 *Implementation of Credit Program*

a) Application in prescribed form:

PKSF receives application for loan in a prescribed application form that requires the applicant-organization to include details of information about the organization, its program, its financing, etc.

b) Preliminary appraisal:

If an organization has experience of managing credit program for the poor, PKSF preliminarily selects it for field visit to see if all information provided by the organization is consistent. PKSF judges experience in rural credit program using several criteria: (a) number of years of experience, (b) amount of loan disbursed, (c) number of members and borrowers, (d) recovery rate of loan, (e) adequacy of skilled salaried staff and (f) credibility of sponsors.

c) Field visit:

Once an organization is selected for field visit, an officer visits the organization. If the performance of the organization is found satisfactory it is recommended for acceptance as PO. If there is some deficiency, the concerned organization is kept under observation and suggestions are given for improving the performance. On the other hand, if performance of an organization is found unsatisfactory, the application is rejected. Usually, the main reasons for rejection are the financial mismanagement, gross inconsistency between information in the application and that gathered from field verification.

d) Approval by the Governing Body:

The final power of accepting an organization as a PO rests with the Governing Body. If the management considers an organization to be accepted as PO, the proposal is placed with detailed description of the organization along with the field report, rationale for accepting it as PO and recommendation of the MD, in a meeting of the Governing Body. The Governing Body after deliberation accepts or rejects or puts certain conditions for accepting the organization as a PO.

e) Signing of Loan Agreement:

(a) Final step in disbursing loan to the newly selected PO is the signing of a standard loan agreement with PO. The loan agreement contains terms and conditions of loan (e.g. rate of service charge, area of loan disbursement, number of installments etc.). The loan is collateral free. In addition to a loan agreement, a promissory note is signed by the representative of the PO. (b) The loan agreement is signed from PKSF's side by the Managing Director and from PO's side by the Chief Executive of the PO or sometimes jointly by the Chief Executive and the Chairman.

f) Monitoring and Supervision:

After the first loan is given, the PO is supposed to disburse the loan immediately after receiving the fund and give a list of borrowers to PKSF. An officer from PKSF in charge of the PO visits the PO to verify the loan disbursement and utilization of loan by the members. Usually, PKSF officials visit the POs at an interval of 3 months.

g) Application for Successive Loans:

The approval of successive loans to a PO depends on several factors: (a) satisfactory utilization of previous loan, (b) maintaining high rate of recovery of loan at the field level (>98%); (c) giving reports regularly to the PKSF, (d) potential for expansion of loan program; and (e) repayment of loan installments to PKSF, if due. The successive loan proposals upto Taka 2.5 million are approved by the Loan Committee chaired by the Managing Director. Similar loan agreement is signed for each installment of loan. Loan beyond Tk. 2.5 million limit is approved by the Governing Body.

7.1.3 *Performance of Credit Program*

PKSF now funds 228 POs. POs are dispersed all over the country. As on November 2007, the POs of PKSF have been working in all 64 districts of Bangladesh.

Loan Disbursement

PKSF in its first year of operations could disburse only Taka 3 million. That was the preparatory year for formulating policies and a period of learning to disburse loan to institutions. Upto November 2007, it has disbursed Taka 48,236.83 million.

Loan Outstanding

PKSF has Taka 22,678.49 million loan outstanding with POs as of November 2007.

Borrowers

As of November 2007, total number of borrowers financed by PKSF fund was 8.18 million of whom more than 91.85% were women.

Recovery of Loan

PKSF has two different recovery rates: (a) recovery rate of loan between the PO and PKSF, and (b) recovery rate of POs. Recovery rate of PKSF is 96.89%. This rate is defined as the percentage of due amount has been received on time. Loan recovery of POs at the field level is 99.09%.

7.2 Developing best practices for microcredit management and operations of MFIs

PKSF reviews its policies and programs continuously and adjusts them to meet the changing requirements. PKSF in the last decade has prepared a number of policy guidelines and standards for the microcredit sector based on the felt needs involving the practitioners - PKSF staff members and POs representatives and officials. PKSF has a program to develop standards in further areas and review and revise ones already prepared. Major policy guidelines and standards prepared by PKSF are:

1. *Guideline for selection of POs and Borrowers*.

2. *Guideline for Accounts*: PKSF follows accrual basis of accounting alongwith double entry system for keeping books of accounts. For POs PKSF has a Fund Management Manual which gives procedures to keep records of accounts at field and head office level. There should be a firewall boundary to allocate shared costs or revenues between financial, non financial or social services and commercial activities. Expenses related to actual or anticipated loan losses should be shown separately from other expenses in the income statement. Revenue from donations should be shown separately from income generated by an MFIs financial services and commercial activities.

3. *Policy for Loan Classification and Debt Management Reserve*: Loan outstanding among beneficiaries or portfolio is the important asset of an MFI. Due to various reasons it may not be possible to recover some loans in full amount. The core fund of any PO for microcredit would be eroded if it does not consider this phenomenon and fails to create adequate 'Debt Management Reserve". If the qualitative aspect of portfolio on a continuous basis are classified properly, it helps to create necessary reserve against doubtful and bad loan in a prudent manner. Through provisioning, MFI recognizes the losses it can reasonably expect to have in its portfolio.

4. *Guidelines for Designing Internal Control System for POs of PKSF*: This guideline helps to strengthen and in built within the organogram, systems of accountability alongwith prevention of errors and irregularities.

5. *Management of Savings*: This policy provides a detailed guideline on marketable savings products and associated record keeping system along with direction for using savings fund with a view to ensure protection of depositors.

6. *Guideline for Management of Service Charge Earnings*: This gives policy guidelines for allocating service charge earnings to operational cost components of different categories including loan loss provision, disaster management fund and capital acquisition fund so that maximum amount of surplus can be generated for increasing POs equity base.

7. *Guideline for Avoiding Overlapping*: When a household receives microcredit from more than one MFI, this will be treated as an instance of overlapping. Adoption of overlapping policy will help in mitigating the emerging problem of overlapping at field level.

8. *Management Information System (MIS)*: Formats used for in-house reporting of field level activities and for reporting to PKSF provide a good basis for analyzing portfolio quality of MCP. POs use these formats for reporting to PKSF on a monthly

basis. Some of the donors has accepted the PKSFs reporting format for their own funded activities. Uniform reporting saves time for MFIs.

9. *Guideline for Performance Standards and categorization of POs*: PKSF has set up performance standards for its POs in relation to various aspects of microcredit management, overall institutional strength and fund absorption capacity of POs and to categorize POs under different grades, which is used as in house evaluation for credit rating of PO before any further disbursement.

10. *Financial Ratio Analysis*: PKSF has developed a program for financial ratio analysis covering the following areas: (a) effective financial structure (b) portfolio quality (c) self-sufficiency (d) operating efficiency (e) rates of return and cost, and (f) growth. Financial analysis allows MFI management to identify strengths and weaknesses in their microfinance services and provides a basis for business planning and projections.

11. *Policy for the Utilization of Disaster Management Fund*: PKSF has provided Tk10m to its POs as grant for creation of a Disaster Management Fund (DMF) by each PO. Each PO will contribute a portion of their service charge earnings to this fund following DMF policy developed by PKSF. This fund will be used for strengthening the disaster coping ability of microcredit clients through interest free loans following DMF policy guidelines of PKSF.

12. *Indicators of Early Warning System*: PKSF has set up a policy to detect downward trend in MCP through some indicators and to take preventive measures sooner.

13. *Business Plan for POs*: In order to implement an effective and sustainable MCP, the POs are required to have a five-year business plan. The guideline are in two parts. The first part is to prepare an expansion plan (horizontal & vertical) and the next is to formulate some institutional development strategies for implementing the above plan having considered the existing strength and weakness of the organization. Both of them have targets that would be annually implemented.

14. *Guideline for Management Audit*: This is a policy guideline to evaluate the internal governance, accountability, transparency and reporting of PO through assessment questionnaires.

15. *Guidelines for Internal Audit*: Rigorous management and financial audits are carried out by internal audit cell of PKSF for each PO. At least 5 field visits are made in a year for each PO for this purpose. A comprehensive internal audit Terms of Reference (TOR) is followed in this regard.

16. *Audit TOR for external auditor of PKSF for auditing PKSF*

17. *Audit TOR for external auditor of PKSF for auditing its POs*: At present external auditors, shall audit 75% of PKSF POs during external audit of PKSF, in future this will be 100%. A comprehensive TOR is there to follow uniform auditing and reporting standard.

18. *Audit TOR for auditors appointed by POs*: For uniformity of accounting and reporting standard PKSF has given a TOR for external auditor of POs appointed by them.

19. Policy for loans for institutional development.

20. PKSF microcredit program funding policy for indigenous ethnic minorities.

7.3 Institution/capacity building support to MFIs

Institutional development of PKSF and its POs holds great importance especially from the point of view of sustainability of the microcredit program that has so far been operational so successfully in Bangladesh. Institutional development has implications on a number of areas comprising program outreach, absorption capacity of the MFIs, supervision and monitoring, financial management and control, personnel policy including human resource development (HRD), sustainability of micro-credit program and MCI itself etc. The institutional development components include the following:

7.3.1 *Training:*

Training for POs personnel has been identified as one of the vital activities of PKSF for enhancing institutional capacity for successful management of microcredit program. To implement the training program PKSF has created a Training Unit headed by General Manager Administration. The unit is supported by a seven member Implementation Team (IT) consisting of senior level staff members. The Manager and two Assistant Managers carry out the routine works of the unit. PKSF has identified some Training institutes belonging to both public and private sectors and out-sources its training programs to these institutes following the training plan incorporated in the yearly training calendar.

Training Need Assessment:

A training need assessment (TNA) was undertaken to design training modules for POs and PKSF staff. Based on the TNA, PKSF developed 22 training modules out of which 7 are for PKSF staff and 15 for POs' staff.

Training Modules for POs Staff

Category of Trainees	*Modules*	*Duration of training courses*
Chief Executives	1) Financial Management	3 days
	2) Savings And Credit Management	3 days
	3) Monitoring & Evaluation	3 days
	4) Strategic Planning	4 days
	5) Good Governance	2 days
Mid Level Officers	1) Accounts Keeping and Financial Management	3 days
	2) Credit Operation and Savings Management	5 days
	3) Supervision & Monitoring	3 days
	4) Training of Trainers	7 days
	5) Disaster Management	2 days
	6) Microenterprise	3 days
Accountants	1) Accounts-Keeping	5 days
	2) Financial Management	3 days
Field Workers	1) Group Dynamics, Micro Credit & Savings Management	3 days
	2) Effective Management of IGA's	3 days
Total	15	

Training Modules for PKSF Staff

Category of Trainees	*Modules*	*Duration of training courses*
Assistant General Manager, Deputy General Manager	1) Financial Management 2) Strategic Planning 3) Monitoring and Evaluation	5 DAYS 5 DAYS 5 DAYS
Manager, Deputy Manager And Asst. Manager	1) Financial Management 2) Micro-Credit Management 3) Budgeting and Auditing 4) Identification and Managing IGA's.	7 DAYS 5 DAYS 5 DAYS 3 DAYS
Total	7	

A new dimension in the training program has been added introducing on the spot training (quick, need-based, in-situ) for the POs staff.

7.3.2 ***On-site Technical Assistance:***

PKSF officers, when they make field visits for on-site monitoring of POs' programs, provide the POs advice on different aspects of management and operations of their microfinance programs. This on-site technical assistance has been found very effective in improving the efficiency of POs' programs.

7.3.3 ***Institutional Development Loan Program:***

PKSF is implementing a loan program for its POs institutional development since 1997. Since FY 2000-2001 PKSF has introduced 1% interest to this loan program. Provides loans to its POs to make office-cum-training centres; Buy Computers, Motor Cycles, By-Cycles, Engine Boats, and Photocopiers. This loan is repayable in two years in eight equal installments.

7.3.4 ***Workshops/Seminars:***

PKSF organize a series of workshops on "Strengthening Microcredit Operation" of its Partner Organizations (POs).

7.3.5 ***Research Program:***

PKSF gives much importance to research for institutional development. The objective of research program is to strengthen and support the microcredit program of PKSF and its POs.

7.4 Lobbying for appropriate policies and regulations useful for the expansion of microfinance sector

PKSF lobbies with the Government for appropriate policies and regulation. The Government has constituted a committee to prepare a regulatory framework for the country's microcredit sector. PKSF is an important member of this committee and making contribution to help the Government prepare a microfinance friend by regulatory framework.

Other Areas of Contribution

Besides the above, PKSF is also making contribution in the following areas:

i) *Computerization of PO's MIS and Accounts System*: PKSF has developed software for PO MIS using oracle and Developer 2000. The software has been tested in 5 POs and will be implemented in all POs soon. PKSF is also developing software for POs' Accounts.

ii) *Credit Bureau Database*: PKSF has taken up a project to set up a Credit Bureau Database at PKSF. The database will have information up to the borrowers level of all microcredit organizations of the country including PKSF POs and Grameen Bank. The data will be kept at a disaggregated level like union/village, which may be used to identify areas in terms of intensity of microcredit program coverage.

iii) *Disaster Coping Strategy*: PKSF has provided Tk. 10 million to its POs as grant for creation of a Disaster Management Fund (DMF) by each PO. Each PO contributes a portion of their service charge earnings to this fund following DMF policy developed by PKSF. This fund is to be used for strengthening the disaster coping ability of microcredit clients through interest free loans following DMF policy guidelines of PKSF

iv) *PKSF and Gender Equality*: PKSF since its very inception recognized the fact that without the active participation of women who estimate 50% of the country's population, microcredit program would not be able to achieve its objectives. SO, PKSF encouraged its partners to target their microcredit programs to include mainly the women. To day, more than 90% of the beneficiaries of microcredit programs of its partners are women. PKSF is therefore playing an important role in empowerment of women.

v) *GO-NGO Partnership*: PKSF has very successfully established and developed GO-NGO collaboration in the field of poverty alleviation through the provision of microcredit.

8.0 FINANCIAL AND INSTITUTIONAL SUSTAINABILITY OF PKSF

PKSF will soon achieve operational and financial sustainability and will be able to cover its direct costs of operations, such as salaries and administration costs, through its interest earnings. PKSF's interest income from loans both ensures operational sustainability and covers bad debt expenses and financial expenses incurred in making loans and thus it is financially sustainable. With operational and financial sustainability already achieved PKSF is committed to attain economic viability.

PKSF has achieved institutional sustainability. PKSF has a well defined, highly transparent and proactive governance system. Its governing body includes persons with international reputation in the field of rural development, poverty alleviation and microcredit. Its management cadre consists of individuals having distinctive academic record and high degree of professional efficiency and commitment. No individual or person dominates PKSF policy or management. Although it is created by the Government and funded by and through the Government it enjoys operational autonomy. All these factors have contributed to PKSF's institutional sustainability.

9.0 SUSTAINABILITY OF POs

Fundamental policies to run a successful rural credit program are in place in many POs. Selection of members, savings and loan policies, portfolio management, financial control, and monitoring and evaluation are some of the fundamental areas of policy formulation.

So far, many POs within their limited capacity have tried to recruit competent staff. POs do not have adequate financial resources to recruit staff with better educational attainment and competence. Many POs are being managed by their founders and expected to do so for quite some time. Leadership by the present directors at this early stage of the organization is important for growth and sustainability. Many POs either have physical assets like office buildings and land or purchased land for construction of office, training center, etc. This shows a clear commitment from the part of the organizers for giving POs a solid foundation.

The basic issue in financial viability analysis is whether POs can cover the costs of managing their credit programs from the income of the programs, mainly the service charge from loans. Many POs have been successful by gradually covering the cost of operations from the income of the credit program and generating a moderate surplus. It is expected that all POs will continue to improve their profitability.

10.0 IMPACT OF MICROCREDIT PROGRAM

10.1 PKSF's partner MFIs provide four categories of services to the poor: (a) financial intermediation, which generally covers credit, savings and insurance; (b) social intermediation services for building human and social capital; (c) enterprise development services including training and technology transfer; and (d) social development services covering health, sanitation, education.

The microcredit programme, comprising the above mentioned services, has benefited the poor in more than one way. The programme has strengthened their subsistence through the diversification and strengthening of their survival strategies; enhanced their security by giving them access to assets and rights and augmented their self-respect by providing them choice and independence.

Access to microcredit has enabled the poor to undertake diversified economic activities which generate flow of income round the year and thus has strengthened their survival strategy.

Without microcredit, security for poor rural households in the past has come generally from patron-client, mutual sharing and traditional borrowing arrangements, often at high costs. With microcredit, poor households now own and command assets and savings which they can use to meet contingencies without having to sacrifice their independence, security and peace of mind by getting into additional debt.

Microcredit borrowers can now depend substantially on their own assets and savings to meet contingencies, and do not have to depend on borrowings from patrons or money-lenders, which was far more common previously. These borrowings were often on conditions which include usurious rates of interests, or required obligations such as giving free labour, supporting the patron in unjust local feuds and local elections. This greater freedom has led to a significant increase in borrowers' self respect.

The microcredit programme has empowered women and raised their socio-economic status. With their increased social and political consciousness, women are now more likely to take part in local government and national elections. They are gaining control over their lives, reducing their dependency and taking part in the family decision making process. The provision of social development services has contributed to improving their health status and enhancing their literacy and awareness levels.

10.2 Income

A number of studies conducted in Bangladesh in the 1980s and 1990s on the impact of microcredit programmes highlight the fact that access to microcredit results in an increase in income/consumption. The results from a few of the studies are shown in Table-1. The table shows that the increase in income/expenditure as a result of MFI participation ranges from 11 to 40%.

Table-1: Impact of MC on Household Income/Expenditure

Source	Name of MFI	Income/expenditure per annum (Taka)	Project (P)	Control (C)	% change $\frac{(P-C) \times 100}{C}$
Hossain 1984	Grameen Bank	Income, per capita	1762	1346	30.9
Hossain 1988	Grameen Bank	Income, per capita	3524	2523	39.9
IMEC 1995	Proshika	Income, per household	22244	17482	27.2
Rahman 1996	PKSF	Expenditure, per household	26390	23802	10.9
Khandker 1998	Grameen Bank	Expenditure, per capita	5180	4202	23.3
Khandker 1998	BRAC	Expenditure, per capita	5050	4335	16.5
Halder 1998	BRAC	Expenditure, per capita	8244	6480	27.2
IMEC 1999	Proshika	Income, per household	48635	43584	11.6

Note: *Results across studies are not comparable, because of variations in methodology and the areas covered.*

A recent study conducted by Atiur et al. (2005) supports the findings of the earlier studies. The study finds that the total household income of microcredit borrowers of PKSF partner MFIs has shown a secular growth ranging from 2.8% to as high as 12.2% per annum during the periods from 1977-2004. The study observed that though non-participants had the highest average household income at the outset, they were gradually surpassed by participants due to successful interventions of microfinance institutions.

10.3 Social Impact

Measuring social impact in terms of living conditions (structure of homestead), access to basic services (water and sanitation), health (mode of treatment, expenditure), education (schooling of children), and assets, the study by Atiur et al. (2005) found that microcredit intervention has a positive impact. Some of the earlier studies mentioned in Table-4 also found positive social impacts from microcredit programme.

10.4 Empowerment

Atiur et al. (2005) measured empowerment using the following eight indicators: (i) mobility; (ii) awareness; (iii) decision to spend income; (iv) ability to make small purchases; (v) ability to make large purchases; (vi) involvement in making important household decisions; (vii) relative freedom from domination by the family; and (viii) political awareness. They find that women participating in microcredit programme are significantly empowered with reference to all the indicators.

Analysing primary field data, Simeen Mahmud (2004) found a positive impact on women's welfare from microcredit programmes. Hashemi et al (1996), and Kabeer (1998) found that microcredit programmes have a positive impact on women's empowerment.

The UN Human Development Report 2005, while explaining Bangladesh's moderate growth and rapid human development, records the role of microcredit in women's empowerment in the following ways:

Improved access to health and education for women, allied with expanded opportunities for employment and access to microcredit, has expanded choice and empowered women. While disparities still exist, women have become increasingly powerful catalysts for development, demanding greater control over fertility and birth spacing, education for their daughters, and access to services.

10.5 Impact on Poverty

Khandker (2005), a World Bank researcher whose study spans 14 years, was able to draw from research done in 1991/92 and again in 1998/99 by the World Bank and the Bangladesh Institute of Development Studies. Khandker found:

- Moderate poverty in all villages declined by 17 percentage points, 18 points in programme areas and 13 percentage points in non-programme areas.

- Poverty declined by greater than 20 percent for programme participants who had been members since 1991/92, which is about three percentage points per year. Greater than half of this reduction is directly attributable to microfinance.

- The impact was greater on extreme poverty than moderate poverty.

- Spillover effects among non-participants due to growing economic activity: Microfinance reduced poverty among this group by some 1.0 percentage points annually for moderate poverty and 1.3 percent annually for extreme poverty.

Based on his data, Khandker concluded that microfinance accounted for 40 percent of the entire reduction of moderate poverty in rural Bangladesh.

Atiur et al. (2005) in their study found that between 1998 and 2004, the head count ratio for eligible (target) regular programme participants fell by 10 percentage points (from 78.5 percent to 68.3 percent) as against of 5 percentage points for eligible households (from 75 percent to 70 percent) that never participated in microfinance. The households that left microfinance between 1998 and 2000, (and never rejoined) appeared to have performed best in terms of reduced poverty incidence and poverty gap ratio. This might suggest sustained positive impact of microcredit programmes.

11.0 Some Lessons from PKSF Model

PKSF is unique in its organizational structure, activities and management practices. A few factors can be identified that have made it possible to register such an impressive performance.

- PKSF has been established and funded by the government, but it has been kept as an independent organization outside government bureaucracy. That enabled PKSF to form its own policies and develop its own management practices suitable for its activities.

- The outstanding quality of the Governing Body has contributed most in guiding the management and forming and revising policies whenever necessary.

- The policy of recruiting officials of above average quality has contributed most to the growth and performance of PKSF.

- PKSF has been successful in utilizing the capacities of local NGOs in quickly reaching the poor and developing the POs to deliver the financial services to the poor. Selection of the right POs was the most crucial factor for PKSF's success.

- The key to the sustainability of POs is the assured source of funds and the improvement in the capacity of human resources backed by good management practices. In both areas, PKSF has proven itself to be effective.

- Financial intermediaries (NGOs) backed by resources from PKSF have been found to be effective in reaching the poor. Both PKSF and the POs can also become sustainable in the process.

- The rural poor and poorest men and women have proven themselves to be capable of managing money and improving their income. Likewise, the POs of PKSF have proven the ability to select the right target groups and deliver the desired services.

- One area that needs top priority from PKSF is enhancing the capacity of POs. This can be done by more investment in development of the POs' human resources.

- The PKSF model (as an apex second-tier organization) shows potential for replication. It can further grow and make a significant contribution in improving the quality of life for the poor and poorest.

A. Guideline for selection of Partner Organization (PO) of PKSF for its "OOSA" (Organizations Operating in small areas) microcredit Program

PKSF is presently carrying out its operations through various partner organizations, therefore, selection of PO is a crucial task of PKSF and this is an ongoing process. Under this process PKSF appraises various types of non-government, semi-government and government organizations, voluntary agencies, societies and local government bodies to select these as POs which have gained experience and expertise or which have the potentials to operate a successful microcredit program for self-employment and income generation of the landless and assetless. In appraising an organization, PKSF follows a clear guideline which can be divided into the following areas: (i) Organization; (2) Organizer; (3) Management; (4) Human Resources; (5) Working Area; (6) Field Activities; (7) Past performance; (8) Management Information System (MIS) and (9) Accounting System.

According to the above-mentioned guideline, to become a PO, an organization should have the following features.

(i) **Organization** :

- The organization should have a legal basis i.e., if it is a non-government and voluntary organization it is to be registered with the appropriate registration authority such as the Directorate of Social Welfare, Department of Women's Affairs, Registrar of Cooperatives, NGO Affairs Bureau etc.
- It should have a constitution duly approved by the concerned registration authority.
- It should have a General Body and an Executive Committee approved by the concerned registration authority.
- In case of government, semi-government and local bodies it must be formed lawfully.
- The organization should have the mandate to operate credit program for self-employment and income-generation activities of the landless and assetless with an admissible service charge.
- It should have a mandate to borrow money from the government, semi-government, private and any other organizations.

(ii) **Organizer** :

- The organizer or founder(s) should be socially reputable, respected, honest with intention to serve the poor people
- Organizers are to be acceptable to the staff, group members and to the community in general.
- The organizers should have the capability and vision to develop a future perspective and strategic plan of a development organization.

(iii) **Management** :

- The organization should have an organogram.
- The chief executive should be full time and should possess the mentality to work on a long term basis. In case of local organization the chief executive have to stay in the working area.

- The chief executive should have good and dynamic leadership quality and should demonstrate good management capability and be able to formulate strategic plan for the organization.

- The organization should have adequate number of regular and full time staff to ensure proper implementation of microcredit program.

- The chief executive should have a good reputation and should be acceptable to the staff, group members, and to the community in general.

(iv) **Human resource**:

- The organization should have trained and skilled manpower to administer the organized group and to maintain a sound accounting system.

- Staff should be honest, dedicated, and should possess missionary zeal.

(v) **Working Area** :

- Working area of the organization should be well suited for microcredit operation. It should have good communication network, banking facility and easy access to market so that the borrowers can utilize their loan profitably.

- It should be poverty stricken and such rural areas will be given preference.

- There should be potentials for expansion of the program by avoiding duplication with the activities of the other organizations in the same area.

(vi) **Field activities** :

- Members organized would be the landless and assetless; the characteristic features of whom would be as follows: those residing in rural areas owning less than 0.50 acre of cultivable land or having total asset of the value less than that of one acre of land in the locality, would be considered as landless-assetless.

- Members are to be organized in groups and groups must be formed with like minded people who should be conscious/careful about group discipline and regular in attendance in group meeting, and making saving deposits. Members should have a minimum 6 months practice of regular saving deposit.

- The organization should have at least 400 organized members, Tk. 0.2 million operating loan outstanding at field level and should have experience of at least 6 months successful microcredit operation.

- Number of organized members should be consistent with the working/operating capital of the organization.

- Groups should be organized within the 10 Km radius of the project office.

- In case of local organization 'Head Office' should be situated in the working/operational area.

- The organization has to maintain a minimum loan recovery rate of 98% on a continuous basis. For a program operating for more than three years a minimum loan recovery rate of 95% has to be maintained on a continuous basis.

- Overlapping with the activities of other organization in the same area must be avoided.

(vii) <u>Past Performance</u> :

- The organization should have a demonstrated experience of ensuring proper utilization of loan money with maintaining a high rate of recovery on a continuous basis.
- It should have the evidence of successful implementation of all the programs undertaken by the organization.
- It should have properly organized members and groups for successful operation of microcredit program.

(viii) <u>Management Information System (MIS)</u> :

- System for collecting information from member, group and office level for proper management and monitoring of the microcredit program should be present.
- Adequate information should be available regarding microcredit operation.

(ix) <u>Accounting System</u> :

- The organization should maintain a sound, systematic, correct, detailed and transparent accounting system.
- The organization should not have case of any misappropriation or illegal withdrawal of fund.
- Savings account of the group members must be complete, detailed, transparent and correct.
- All the accounts should be duly audited by the proper authority and the reports should be readily available.
- All the accounts must be correct and updated.

B. Guideline for selection of Partner Organization (PO) of PKSF for its "BIPOOL" (Big Partner Organizations Operating in Large Areas) microcredit Program

- The PO is operating a successful Microcredit program for a minimum of 5 years;
- It has at least 100,000 borrowers with a strong potential for expansion;
- It has at least Tk. 100 million of equity (including foreign grants, surplus etc.) of its own on the program;
- The debt-equity ratio does not exceed 2.5:1;
- It maintains a strong and transparent accounting, MIS and internal audit system;
- It has its accounts audited by a reputable external auditor on an annual basis; and
- The minimum loan recovery rate is 95%.