The Role of the Palli Karma Sahayak Foundation (PKSF) in the Development of Microfinance in Bangladesh

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Abstract

The study attempts to explore the role of Palli Karma Sahayak Foundation (PKSF) for developing the micro finance in Bangladesh. The study suggests that PKSF has already succeeded in facing the problems faced in micro finance market and contributes to the development of micro finance market by financing 23.8 percent of total NGOs funds. It also succeeds substantially in attracting the number of beneficiaries to the rural area through it 248 partner organization ahead of Grameen Bank. The most crucial key factors for the success of PKSF are lack of political interference in its management and high profiled efficient panels.

Key Words: Micro credit, partner organization, recovery rate etc.

1. Introduction

Microfinance is often considered one of the most effective and flexible strategies in the fight against global poverty. It is sustainable and can be implemented on the massive scale necessary to respond to the urgent needs of those living on less than $1 a day, the World's poorest. Bangladesh micro-finance sector is regarded as the largest and most efficient in the world. We still lead the global microfinance industry both in terms of its sheer size and productivity. It is necessary to define the concept of microfinance before the study goes further analysis. Microfinance, which emphasizes granting small loans to the poorest of the poor without requiring collateral, rests upon the notion that the most impoverished people in developing countries typically don't otherwise have access to traditional financial services, but that they do possess modest survival skills that make them credit-worthy. Credit programs can offer the poor access to small amounts of capital (and often other low-cost financial services), and, in turn, they use these loans for self-employment projects, to generate income and eventually become self-reliant.

An equally important part of microfinance is the recycling of funds**.** As loans are repaid, usually in six months to a year, they are re-loaned. This continual reinvestment multiplies the impact of each dollar loaned. Microfinance has a positive impact far beyond the individual client. The vast majority of the loans go to women because studies have shown that women are more likely to reinvest their earnings in the business and in their families. As families cross the poverty line and micro-businesses expand, their communities benefit. Jobs are created, knowledge is shared, civic

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participation increases, and women are recognized as valuable members of their families and communities.
Microfinance services in Bangladesh are provided by a range of NGO-MFIs, microfinance banks, government programs, nationalized commercial banks, and private commercial banks. Group-based lending methodologies prevail. According to Bangladesh Bank estimates, NGO-MFIs (estimated at 5,000 in number) are the largest providers of microfinance services in the country—serving 61 percent of all borrowers. A striking 90 percent of MFI clients are women and the average loan size is about BDT 4,000 ($57).

The average interest rate on savings is 5 percent; the service charges on credit range from 10 to 20 percent for flat collection. The four main players in Bangladesh in terms of MFI members and market share are Grameen Bank, BRAC, ASA, and Proshika. However, the historically strong portfolio quality of these four MFIs declined in FY08 due to the effects of two floods and a cyclone.

Palli Karma Sahayak Foundation (PKSF) has been accepted as an apex microcredit institution of the country and provides organizational support, training to borrowers, starts financing this market segment through its Partner Organizations and the supervising the credit. PKSF has successfully managed to expand the outreach of micro-finance while ensuring a strong focus on financial sustainability.

2. Historical Development

Although micro credit appears to be a recent phenomenon, this type of intervention is nearly one hundred years old. Realizing the severity of rural indebtedness and the need for the rural poor to have access to credit, the government enacted the Land Improvement Loans Act (LILA) and the Agricultural Loans Act (ALA). In the first decade of twentieth century, the government encouraged credit co-operative societies and land mortgage banks. These institutions were expected, among others, to provide credit in small amounts to rural poor. Serious attention to credit programmes for small farmers was given by the elected government of Bengal in the late 1930s. the passage of the Agriculture Debtor's Act (ADA) and the Monetary Lenders Act(MLA) in 1937 and 1938 respectively, imposed restrictions on the activities of rural moneylenders who had traditionally loaned money to the poor in rural areas. The government also amended the co-operative Societies Act in 1940 and increased the number of loan mortgage banks to facilitate the availability of credit. The Rural Reconstruction and debt Settlement Boards helped small farmers to survive from the onslaught of money lenders.

2.1 Comilla Approach

The village Agriculture and Industrial Developemnt(V-AID) Programme was launched in the 1960s to generate a spirit of self-help among the villagers. The programme helped adopt modern techniques of farming, livestock rearing, cottage industries etc. It was followed by "Comilla Model" developed by the Bangladesh Academy for Rural Development (BARD) in 1960. The model was also largely based on group approach, and provided micro credit to the co-operators. It

was extended through out the country in 1970 as Integrated Rural Development Programme(IRDP). Under IRDP farmers were organized into two-tier cooperative groups: credit and development inputs were mobilized through these cooperative groups. In 1982, IRDP was reconstituted as Bangladesh Rural Development Board (BRDP), which continued and strengthened its initiatives to organize marginal and landless farmers and poor women in formal and informal co-operatives for their empowerment, through micro credit interventions. This has institutionalizes micro credit in a big way in the government sector.

2.2 World Wide Acceptance

The idea of micro credit is something for which Bangladesh can deservedly claim the intellectual property right. Bangladesh model of micro credit has not only replicated worldwide, but also it has found its place of pride in standard economic textbooks. Micro credit has now outreached well over one-third of all rural households in Bangladesh. Perhaps, no single poverty intervention programme ever reached such a wide coverage anywhere in the world.

3. Literature Review

Microcredit lending is a bottom-up development plan that focuses on giving small loans to poor entrepreneurs. Loans are mostly directed towards women to promote gender balanced development (Robinson, 2001; Wright 2000). Loans are generally under the equivalent of 100USD, and are given for the purpose of encouraging entrepreneurial women to start their own business (Robinson, 2001; Wright 2000; Woller andWoodworth 2001). Borrowers repay loans with a small amount of interest. This is a development plan that seeks to create self-sufficiency rather than dependence (Yunus,2007).

Muhammad Yunus emphasizes credit as a right to opportunity. According to Yunus, credit should not be seen as a luxury for the rich, it should be an opportunity forall: “Just like food is; credit is a human right” (Yunus, 1998).Traditional lendinginstitutions do not lend to people without collateral. The Grameen Bank encourages the idea that the poor can benefit from financial services in the same way that people benefit in richer, developed nations (Pollin, 2007). Yunus argues that people can be held accountable to pay back loans even if they do not have any collateral (Yunus, 2007). The Grameen Bank uses different indicators of accountability, like social responsibility, to assure that loans will be paid back (Yunus, 2007; Daley-Harris 2007).

Empowerment is an important part of individual development, a part of the goal of microcredit lending (Daley-Harris 2007). Microcredit focuses on community and the individual who are not represented in most top-down development schemes, in most cases, women (Murdoch 1999). Other development plans focusing on individual empowerment contend that economic development within a state cannot occur without personal development. “Empowerment is at the center of human progress. The Hunger project makes the distinction between failed development that is top-down service delivery without empowerment and development where the empowerment of people, especially women, is at the center” (Daley-Harris 2007, 2).

According to a borrower in Bangladesh, a loan gave her power within her household. “Before, husbands used to earn and that was how wives ate. But now he gives value; I have bought a loan.

I am laboring equally with him, that is why he values me more…" (Wright 2000, 23). This is an example of the potential power of microcredit lending. The Grameen Bank and other microcredit intuitions encourage the idea that that empowering women can help economic and social development (Pollin, 2007).Microcredit lenders loan to women in an attempt to empower women, giving women the chance to personally determine their economic fate in traditional patriarchal societies (Yunus, 2007).

The identity of a woman in a particular culture plays a large part in their status and role in the economy (Elson, 1993; Tickner, 2001; Whitworth, 1994). In many cases, especially in Muslim states, this identity is dictated heavily by religion (Sardar Ali, 2002). Micro-credit focuses on giving women the opportunity to enter the economic sphere in an empowered way. Embedded religious and culturally imposed identities may inhibit this because empowered economic roles are not part of that identity. Religious and cultural rights as described in international treaties are often placed before women's rights in the hierarchy of human rights in international treaties (Sardar Ali 2002, 65).

Another critique of micro credit is its limited empirical research that could potentially lead to incorrect assumptions and analysis. The economic successes of microenterprises are notoriously difficult and expensive to measure empirically (Dichter 2006, UNDP Review, 2005). Most evidence of success or failure is based on anecdotal evidence that may not show strong long run economic success (Dichter 2006).

On the other hand, the work of wholesale microfinance literature can be identified in terms of its two functions: financial intermediation and capacity building (Ahmed 2001, 5; Gonzalez-Vega 1998, 14; Pennell 1999, 2). As a financial intermediary, MWFs receive funds from governments and donors and intermediate the money to retailing MFIs. As such, MWFs transform risk perceptions, denominations (i.e. loan sizes), and maturities—just like any other financial intermediary—and offer adequately packaged financial resources to partner MFIs (Gonzalez-Vega 1998, 14; Levy 2002, 7). MFIs often lack access to domestic or international financial markets, as their business is perceived as uneconomic or too risky. Large funders find it hard to place investments with MFIs that have not reached substantial size. MWFs serve to fill this gap as intermediaries, eventually allowing a greater volume of financial resources to flow from donors to MFIs in a more efficient manner. An important component of the intermediary function is the selection of viable or potentially sustainable MFIs for investments. MWFs are assumed to select investment objectives more efficiently than individual funding organizations due to their proximity to the domestic microfinance market (Levy 2002, 6-8).

4. PKSF and its Vision

Palli Karma Sahayak Foundation (PKSF) since its inception in May 1990 has been working as an apex microcredit funding and capacity building organization for eradicating poverty by providing microcredit to the poor through its Partner Organizations (POs). PKSF, in English, means "Rural Employment Support Foundation". However, PKSF has expanded its operation to urban areas also. PKSF's vision is to alleviate poverty and improve the quality of life of the poor – the landless and the assetless people by providing them with resources for creation of employment for enhancing economic conditions. The major 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 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 programme in a sustainable manner.

4.1 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, the USAID, the Asian Development Bank (ADB) and the International Fund for Agricultural Development(IFAD).

4.2 Credit Programme

PKSF provides loanable funds to its 199 POs – 10 big, 189 small and medium, POs – under its mainstream credit programme as well as under some projects. PKSF's mainstream credit programme, now, includes five components viz., Rural Microcredit; Urban Microcredit; Micro-enterprise credit, Ultra-poor Credit and Seasonal Credit. PKSF gives special emphasis on microenterprise development with the goal of making microcredit more growth-oriented. PKSF also implements a number of projects under which credit funds are provided to POs. These are
i. Financial Services for the Poorest (FSP) Project, ii) Training, Employment and Income Generating Program (TEIGP) in Jamuna Multi Purpose Bridge Area, iii) Socio-Economic Rehabilitation Loan Programme (SRLP), iv) Integrated Food Assisted Development Project (IFADEP), v.)Participatory Livestock Development Project (PLDP) , vi) Micro-Finance and Technical Support (MFTS) Project, vii) Second Participatory Livestock Development Project (PLDP-II) , viii) Ultra-Poor Program (UPP), ix) Microfinance for Marginal and Small Farmers (MFMSF), x) Programmed Initiative for Monga Eradication (PRIME), xi) Learning and Innovation Fund to Test new ideas (LIFT), xii) Livelohood Restoration Programme (LRP), xiii) Rural Electrification Development Project (REDP), xiv) Rehabilitation of Non-Motorized Transport Pullers and Poor Owners (RNPPO), xv) Special Assistance for Housing of SIDR affected borrowers (SAHOS), xvi)Rehabilitation of SIDR affected Coastal Fishery, Small Business & Livestock Enterprises (RESCUE)

4.2.1 Features of PKSF Credit Programmes

a) PKSF provides loans to three categories of POs – Organisations Operating in Small Areas (OOSA); Big Partner Organisations Operating in Large Areas (BIPOOL); and Pre-PKSF POs.
b) PKSF funds five categories of microcredit programmes of its POs under its mainstream credit programme; (i) Rural microcredit (ii) Urban microcredit, (iii) Micro-enterprise credit, (iv) Ultra-Poor Credit and (v) Seasonal Loan. c) 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. d) Loans received by OOSA and Pre-PKSF category 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. e) Loans received by BIPOOL category POs are payable in 4 years in 12 equal installments with a grace period of 12 months

4.3 Selecting Partner Organisations

PKSF carries out its operations through various POs, therefore, selection of POs 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 organisations, 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 programme for self-employment and income generation of the landless and assetless. In appraising an organisation, PKSF follows a clear guideline which can be divided into the following areas: (1) Organisation; (2) Organiser; (3) Management; (4) Human Resources; (5) Working Area; (6) Field Activities; (7) Past performance; (8) Management Information System (MIS) and (9) Accounting System.

4.4 Developing Best Practices for Micro credit Sector

PKSF has prepared a number of policy guidelines and standards for its POs and for the microcredit sector involving the practitioners of PKSF, POs and others concerned. PKSF reviews its policies and programs continuously and adjusts them to meet the changing requirements. PKSF has a program to develop standards in further areas.

The following table represents the overall micro credit programmes of PKSF: (In Cr. Tk.)

Year	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Disbursement	119.72	254.74	304.10	340.56	366.00	692.62	1350.70
Recovery	78.75	104.15	160.39	243.00	342.13	437.58	638.94
Rate of Recovery	98.40	98.41	98.17	97.40	96.96	96.71	98.60
Partner Organizations	199	205	213	219	231	243	248
Beneficiaries	2629174	3857357	4485832	5104940	5522406	6778262	7723029
Female	2998082	3389566	3999332	4621260	5033129	6207971	7067455
Male	231092	467791	486500	483680	489277	570291	655574

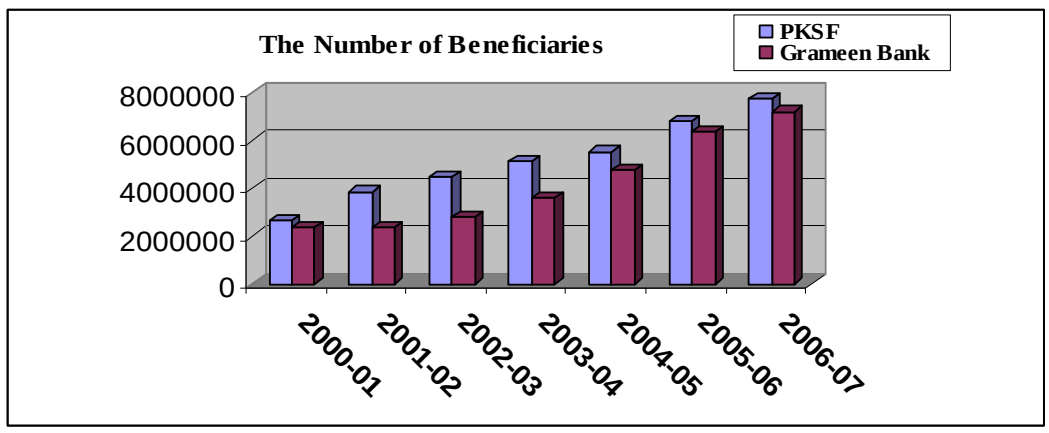
Source: Bangladesh Economic Review and PKSF

It is obvious from the table that rate of recovery is almost 99 percent for the PKSF in recent years. PKSF was established in 1990. In 2007, it disbursed a cumulative amount of loan of Tk.4256

crore to its partner organizations. Within this short span of time no other NGO was able to expand the credit market in Bangladesh. It has been able to increase the number of beneficiaries (both female and male) over the years since its inception and expanded promptly its micro-credit operations in Bangladesh.

Total number of beneficiaries under micro-credit programme in Bangladesh is about 3.8 crores. Now have a look at the position of PKSF (which is the newly introduced micro-credit organization) with Grameen Bank, one of the oldest and top ranking micro-credit organizations, in terms of their total number of beneficiaries in micro-credit market of Bangladesh.

Figure: 1 The No. of Beneficiaries



The role of PKSF can be understood from above figure. The summary is that PKSF has been contributing more to the micro-credit market in Bangladesh by increasing the number of beneficiaries ahead of its close competitor Grameen Bank over the years.

4.5 Role of PKSF in Expanding the Outreach and Sustainability of Microfinance Institutions in Bangladesh

The wholesale lending to microfinance institutions has been instrumental in expanding operations in Bangladesh. Before we identify the funding sources, this part attempts to look at the three approaches to financing microfinance industry and then emergence of PKSF as wholesale lender. ***First model*** *is* the self-help group (SHG)–bank linkage model. Under this model, usually NGOs help group of individual through an incubation period after which tie they are linked to banks. Here, NGO does not play the role of a financial intermediary, it does not have to allocate capital against the lending rather capital needs to be allocated only by the bank, which bears the entire credit risk.

Second model is the financial intermediation by the microfinance institution. In this model, the MFI borrows from commercial sources and on-lends to clients (groups/individuals). This is a recent shift that has been facilitated in part by the participation of commercial banks in the microfinance sector and in part by the lack of resource options for growing MFIs, given that they cannot take deposits and face limited availability of grant funds. This, in effect, results in a double

counting of capital requirement for that particular portfolio of microloans– once by the bank and again by the MFI. The final pricing will therefore include capital charges at both these levels
Third model is the partnership model, the comparatively new one for providing financing to microfinance institutions. This model is unique in that it combines both debt as well as mezzanine finance to the MFI in a manner that lets it increase outreach rapidly, while unlocking large amounts of wholesale funds available in the commercial banking sector. Here, attempt is made .to separate the risk of the MFI from the risk inherent in the microfinance portfolio. The partnership model of financing allows the MFI to build outreach much more rapidly

4.5.1 Emergence of PKSF as Wholesale Financial Intermediation

PKSF, a long-term wholesale portfolio lender, receive large volumes of funding, repackage it into smaller amounts, and pass it as loans, grants, or technical assistance to retail MFIs. Most MFIs, like their poor clientele, are not taken seriously or are seen as uneconomic by domestic and international financial markets. They often are unlicensed and not permitted to mobilize savings, are unaware of or unable to implement rapidly developing microfinance technologies, and are thus limited in outreach potential and ability to achieve the economies of scale and other requisites of eventual self sustainability. PKSF thus created to serve as the intermediaries between the few large sources of financing and the potentially large number of small users.

4.5.2 How PKSF Bridges the Gap between MFIs and the Financial Markets

PKSF serves principally as financial intermediaries, receiving loan and grant resources for reallocation to microfinance retailers. However, as the MFIs move toward financial sustainability, PKSF might be able to create direct bridges between MFIs and licensed financial market institutions, including commercial banks and finance companies, other savings institutions, and the bond and stock markets. They could do this in a variety of ways. In the first instance, MFI repayments of their own obligations to this apex institution might demonstrate to the market their creditworthiness and the potential profitability of lending to or investing in them. PKSF could also provide the market with information and ratings regarding MFI financial performance, although rating MFIs to which the apex itself is lending presents some conflict of interest. Finally, PKSF takes a lead role in creating market-bridging instruments; for example, as partial guarantors of MFI financial paper. To serve as guarantor, however, skeptics note that the apex itself must be perceived by the market as financially sustainable by virtue of either its own financial performance or higher guarantees, presumably from the state. In many cases, moreover, apex institutions have themselves sabotaged such bridges by offering the MFIs the addictive alternative of financing at below-market terms.

Sources of Micro credit and Revolving Funds of NGOs expressed in percentage

	2001	2002	2003	2004	2005	2006	2007
PKSF	18.70	23.48	24.03	23.50	23.64	24.80	25.40
Local Bank	12.70	11.50	11.29	9.51	8.99	7.64	7.81
Foreign grants	25.96	20.41	16.93	17.43	17.50	17.10	16.42
Member savings	19.89	23.63	25.93	25.74	25.40	24.20	24.11
Service charge	14.98	11.48	14.06	17.21	16.59	17.32	16.86
Others	8.13	9.50	8.40	6.97	7.79	8.10	8.01

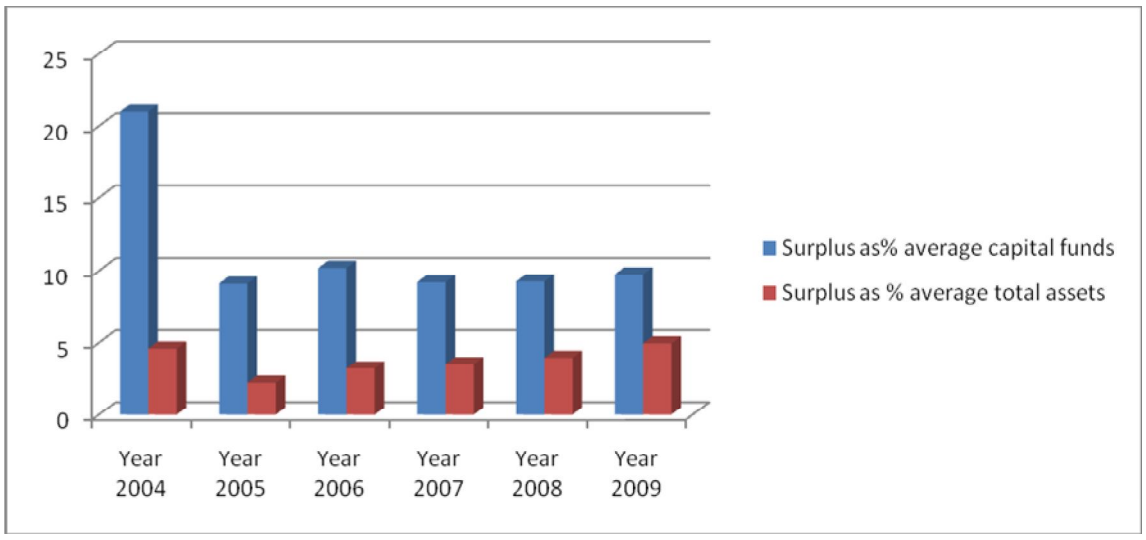
PKSF as an apex institution to provide financing to NGOs immensely contributed to the institutional development of microfinance industry in Bangladesh. The information provided in the above table prominently justifies the fact that PKSF as a single provider of total micro credit and revolving funds of NGOs along with members' savings dominating the microfinance industry over the years.

4.5.3 The Cost of Funds Charged By PKSF to MFIs

Government of Bangladesh did not decide or interfere in interest rates charged by the MFIs on their loans. Historically the rates were set by the large MFIs and followed by smaller MFIs as the going rates. There has been one exception where PKSF asked its partner organizations to reduce interest on loans from 15 percent (flat) to 12.5 percent (flat) beginning from July 2004 because it provides subsidized capital to the partner MFIs. On the other hand, PKSF has attracted its resources from the government and international sources that include grants from USAID(US Agency for International Development), DFID(UK Department for International Development) and EC(European Commission) as well as substantial loans from the World Bank, ADB(Asian Development Bank), and IFAD(International Fund for Agricultural Development) via the government.

4.5.3 Financial Performances of PKSF

Theoretically, microfinance wholesale funds contribute immensely to the development of microfinance institutions of a country. PKSF is an apex wholesale funds provider in Bangladesh, it is important to determine how much successful the institution is. The study identifies two crucial variables of measuring the PKSF performances: Surplus as percentage of average capital funds and Surplus as percentage of total assets.



The diagram demonstrates the fact that PKSF has been very consistent in generating the surplus over its cost of funds over the last six years. This surplus has been, on an average, almost close to 10 percent which is very lucrative for a nonprofit wholesale fund provider institution in Bangladesh.

6. Conclusion

PKSF has benefited from an existing critical mass of retail capacity and has successfully managed to expand the outreach of micro-finance while ensuring a strong focus on financial sustainability. Another second generation issue is access to credit for the vulnerable non-poor and 'graduate micro-credit borrowers'. There are entrepreneurial households who require loans in excess of the average micro-credit loan in order to set up new small enterprises or expand existing ones. PKSF has been successful to cater to this market and has recently started financing this market segment through the partner organizations. The scale, outreach and professionalism of this institution for developing micro credit industry in Bangladesh are truly impressive. It is clear that PKSF's role on household income, vulnerability and non-income dimensions of poverty has also been positive. It satisfies the 23.8 percent requirement of NGOs funds in Bangladesh and has been able to expand the micro finance market by increasing the number of beneficiaries through the partner organizations in Bangladesh.

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