

Is ASA Micro-credit Reaching the Poor in Bangladesh?

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Abstract

This paper attempts to evaluate how successful has ASA through its micro-credit activities been at reaching poor people in Bangladesh. Key issues in the micro-credit debate are discussed. Data collected in a 2009 survey of ASA micro-credit borrowers is analysed. It is found that over half of borrowers own no land. In addition, it is found that two-fifth of borrowers report having no formal education or only the ability to read and write. Since landless and low education are perhaps the two main determinants of poverty, our main conclusion is that ASA is indeed provides loans primarily to poor people

Key Words: ASA, microcredit, poor, illiterate, MFI, training, women.

Introduction

Bangladesh is a low-income country. Data collected in the *Household Income and Expenditure Survey* suggest that the poverty rate decreased from 49.8 percent in 2000 to 31.5 per cent in 2010 (BBS, 2005, 2010). Despite this impressive reduction in the poverty rate, there are still over 50 million people living in poverty in Bangladesh. There are many determinants of poverty. It is well known that poor people have very limited access to credit facilities. Traditional banks and financial institutions usually provide loans only if borrowers have sufficient collateral. Poor people seldom have enough collateral to borrow from such institutions (Mahmud et al., 2007). Proponents of micro-credit argue that the lack of access to credit is not only a major determinant of poverty but also makes it difficult—if not impossible—to escape poverty.

The term “micro-credit” refers to process of providing small loans and other financial services to poor people without the collateral requirement typical of traditional banks and financial institutions. Micro-credit has many objectives but its main aim is to reduce poverty through female empowerment, enhanced self-employment, improved productivity and greater awareness (Harris, 2006). Most micro-finance institutions (MFIs) provide loans and financial services using some form of “group-lending”. With this approach there is no formal collateral requirement. However, loans are made to individuals but these individuals must be part of a group of borrowers (loan group). Each member of the loan group is responsible for the repayment of all other members (see Fernando 2005). If any individual defaults then all members of the loan group are assumed to have defaulted as well. It is the dependence of members on the other members of the loan group—often referred to as “social collateral”—that helps ensure the loans are repaid.

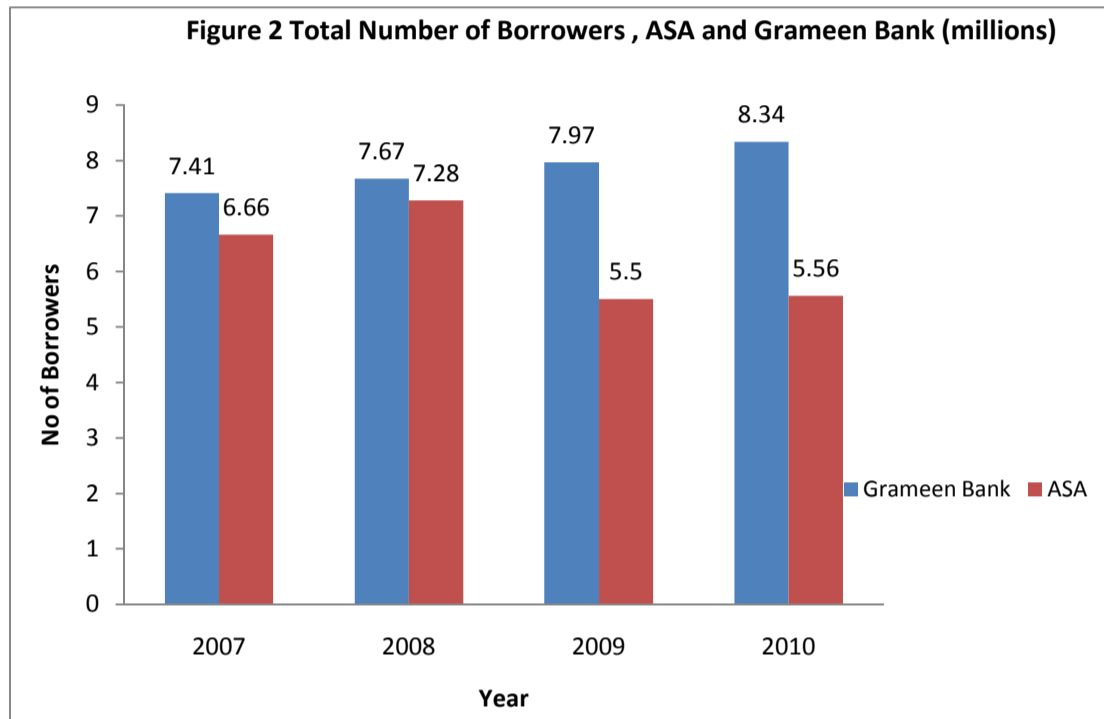
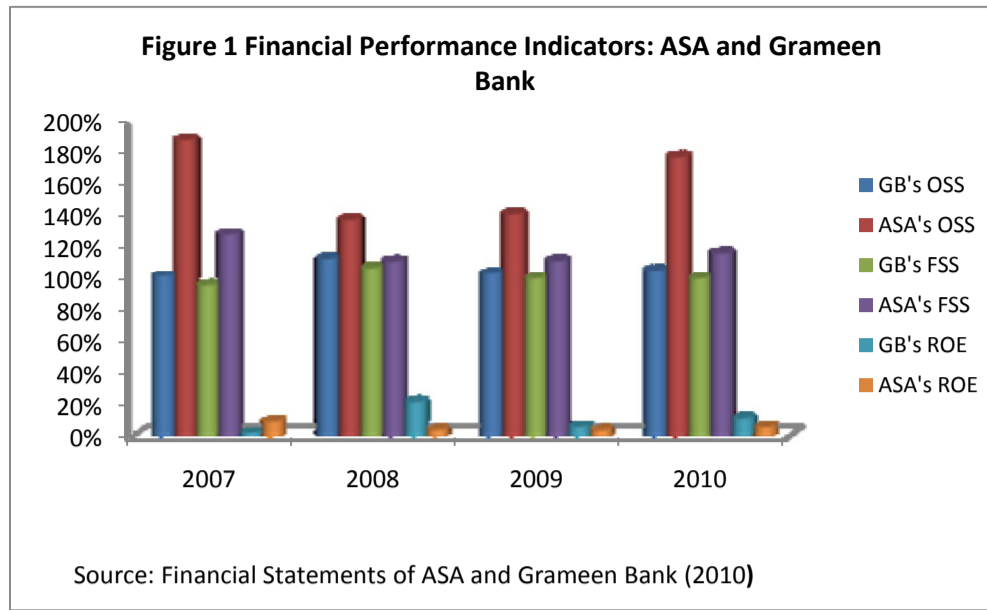
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One of the larger providers of micro-credit in Bangladesh is the *Association for Social Advancement*. The organisation is now more commonly known simply as “ASA”, which in Bangla means “hope”. ASA was founded in 1978 and is a non-governmental organisation whose main mandate is poverty reduction. In 2010, ASA had over five and a half million micro-credit members, with 71 per cent of members being women. It has a long history of micro-credit lending to the poor through its large number of village-level branches (3,194 in 2010) located in the rural areas throughout Bangladesh. In 2010, ASA reported that the outstanding loan amount (principal) in Bangladesh was US\$343 million and that the rate of recovery was 99.6 per cent. ASA charges an interest rate (flat rate) of 12.5 per cent p.a. (ASA, 2010).

ASA is a major MFIs in Bangladesh, known both nationally and internationally as a fast growing, low cost, innovating and sustainable provider of micro-credit and other services. In 2008, the *Financial Times* (FT) and the *International Finance Corporation* (IFC) jointly awarded ASA the “FT Sustainable Banking Award” in the category “Banking at the Bottom of the Pyramid” (ASA, 2008). In 2007, Forbes Magazine ranked ASA as the top MFIs in the world (Forbes, 2007). Micro-credit is now “big business” in Bangladesh with many MFIs being supported with funds from a variety of international sources including the *World Bank*, *Asian Development Bank*, *UNICEF*, *UNDP*, *WFP* and *DFID*.

On most indicators of banking and financial performance, such as *operational self-sufficiency (OSS)*, *financial self-sufficiency (FSS)* and *return on equity (ROE)*, ASA has been doing quite well compared to Grameen Bank (See Figure 1). However, its total number of members declined to under six millions in 2010. On the other hand, the total number of members of the *Grameen Bank* (the largest micro-credit provider in Bangladesh) increased to over eight million in the same year (see Figure 2). One positive development is that ASA is extending its micro-credit activities internationally. *ASA International* (ASAI) was registered in Mauritius in 2006 (ASAI, 2010). To date, ASAI has been established micro-credit programmes in Afghanistan, Cambodia, Ghana, India, Indonesia, Nigeria, Pakistan, the Philippines and Sri Lanka (ASA, 2010). At the global level, ASA is a major player in the micro-credit industry.



With this brief background in mind, this paper attempts to evaluate how successful ASA has been in reaching poor people in Bangladesh through its micro-credit activities. The remainder of this paper is organised as follows. Section 2 provides a discussion of some of the key issues in the micro-credit debate. In Section 3 data collected in a survey of ASA micro-credit borrowers is analysed in order to provide a profile of who is receiving their loans. Some concluding comments follow in Section 4.

Background to Micro-credit

The main aim of micro-credit is to improve the earnings potential of the borrowers in order to reduce the risk of poverty (Mahmud *et al.*, 2007). It is often argued that micro-credit is a very effective tool for poverty reduction (egs. Halder and Mosley, 2004; Latif, 1994; Matin and Hulme, 2003; Rahman and Khandker, 1994). Others argue that it has positive impacts on gender equality, human rights, legal aids, disaster management and land reforms (World Bank, 1996). Zapalska *et al.* (2007) concluded that micro-credit enhances the profitability of small businesses, such as pottery, weaving and looming. Ullah (2004), Zaman (2001), Pitt *et al.* (2003) and Datta (2004) have concluded that micro-credit programmes have enhanced women's socio-economic status, mobility, decision-making power, social awareness, education and scope of employment.

As mentioned above, most MFIs employ a group-lending model with peer selection, peer monitoring and peer pressure being used to ensure very low rates of default (Godquin, 2004). It is believed that group-lending fosters "joint liability", which leads to high rates of repayment (Ghatak, 1999; Zeller, 1998; Bratton, 1986). However, an empirical study of 128 credit groups from Grameen Bank, ASA and BRAC in Bangladesh found that variation of assets owned by the group members (e.g. differences in the amount of land owned) has a negative impact (Sharma and Zeller, 1997). Changing the composition of a loan group by adding a new member can have a positive and or negative impact on repayment. Wydick (1999) and Zeller (1998) find that "group homogeneity", in terms of education and age, has an insignificant effect upon repayment.

It is interesting to note that Schreiner and Woller (2003) give four reasons behind the failure of group lending in the USA. First, "Social capital" (e.g. social networks, norms, values and trust) is not strong compared to low-income countries such as Bangladesh. Second in the USA, poor people are more diverse racially, culturally, socio-economically and demographically so there is less group homogeneity. Third, there is a negative perception of joint liability, with it being viewed as "unfair" or "inequitable" for a non-defaulting borrower having to pay the debt of a defaulter. Fourth, poor people in the USA have more access to small loans through credit cards and loan companies (not based on group-lending).

Matin (1997) has voiced concern about the so-called “debt trap” of *Grameen Bank* borrowers. If the borrowers fail to meet instalments they will need to sell their land or borrow from other (often illegal) sources. This could happen, for example, if the funded projects do not generate enough income to pay the instalments. However, Osmani (2007) found that no evidence of debt traps.

ASA uses a set of criteria to select potential borrowers (see Sharma and Zeller, 1999). The key ones are that land owned should be less than 0.5 acres; monthly income should not be over TK 1,200; and must be a day labourer who works at least 200 days a year. Given these criteria some believe that micro-credit is not reaching the “poorest” in Bangladesh. For example, empirical evidence presented by Amin et al. (1999) suggests that micro-credit programmes have failed to target the poorest households. However, they argue that such programmes have been successful in reaching individuals just below the poverty line. In order to reach the poorest it is also believed that the targeting of loans to female headed households would be more effective than loans to the landless. Murdoch (1998) found that 25 per cent of borrowers have more than 0.5 acres of land in Bangladesh. This study also pointed out that one borrower possessing 13.4 acres of land. Rogaly (1996) concludes that a current member of a loan group will not accept a new member unless it is believed that the new member has sufficient income to make regular payment. It is clear that the poorest are the least likely to fulfil this requirement.

Hashemi (2001) identified several reasons behind the exclusion of the poorest poor from the micro-credit lending. The first is that programme staff and officers and group members are very careful about selecting potential borrowers. For example, they screen out potential borrowers by gathering local information, with the aim to exclude those they believe (correctly or incorrectly) the least likely to repay. The second is that there is a preference for potential borrowers who are having other sources of income. It is believed that such individuals will have a higher probability of loan repayment even if the micro-credit loan does not generate higher earnings. The third is that belief that the poorest poor use the loan for current consumption and not for investment.

Fernando (2005) expressed concern that micro-credit is unable to reach the poorest poor because the selection process is determined almost exclusively on the perceived ability to repay. Likewise, Milgram (2001) concluded that in the Philippines, MFIs are trying to achieve financial self-sufficiency and have moved away from the original key mission of reaching the poorest poor. Navajas et al (2000) concluded that Bolivian MFIs have reached the “richest of the poor” and “the poorest of the rich” much more than the poorest poor.

Karlan and Validivia (2007) found that the training of borrowers increases repayments rates and leads to higher client retention. After receiving training, borrowers show greater business knowledge in such areas as record keeping and sales planning. Sharma and Zeller (1999) found that *ASA*, *BRAC* and *PROSHIKA* are providing training activities in different areas such as entrepreneurial skill development, managing of micro enterprises like shop keeping, crafts production, mass awareness, and family planning activities. In the USA, Langer et al (1999) note that more than 90 per cent of micro-credit programmes focus on training activities. In the past the focus was primarily on loans. On the other hand, Schreiner and Woller (2003) note that in low-

income countries like Bangladesh, Indonesia and Bolivia, there is a shift away from training. It is clear that training programmes generate extra costs for the lenders. Servon (2001) found that some fund providers prefer to fund loans rather than training. However, most MFIs still provide some form of training to their borrowers. Schreiner and Morduch (2001) examine the avoidance of training by MFIs. They note that there is a belief that most businesses supported by micro-credit loans are “simple” in purpose and structure. As a consequence, some funders believe little training is needed since the belief is that borrowers know about their own businesses.

Empirical Evidence

The analysis carried out in this section is based on a survey of ASA micro-credit participants carried out in 2009. The sample consists of borrowers who have been members of the micro-credit programme for at least three years. The survey was targeted at the Noakhali and Comilla districts. These two neighbouring districts were chosen because of their cultural similarity. In these two districts there are 166,243 ASA borrowers. Respondents were asked detailed questions relating to socio-economic characteristics (e.g., income, training, living status, education and assets) and borrowing history. The questionnaire was administered by thorough face-to-face interviews. The survey was approved by the President of ASA and the organisation’s research division. The target was 400 interviews and 397 were completed.

Table 1 shows the breakdown of the sample by the age of borrowers. The relationship is non-linear and follows an inverted U-shape. Almost half (49.4%) of borrowers are aged 31 to 40. Over three-quarters (75.6%) are aged 20 to 40. Less than one quarter (22.4%) are aged 51 to 60. The same is the case for those aged 20 to 30. It is interesting to note that in the sample there are virtually no borrowers above the age of 60.

Table 1 Age Distribution

Age Interval	Frequenc y	Per cent
20-30	104	26.2
31-40	196	49.4
41-50	89	22.4
51-60	7	1.8
61 ⁺	1	0.3
Total	397	100.0

Table 2 provides information on education level of borrowers. Education is classified into five categories. The categories are: *College level* (11 plus years of schooling), *Secondary level* (6 to 10 years of schooling), *Primary level* (1 to 5 years of schooling), *Able to read and write only* and *No formal education*. The majority of borrowers (39.5%) have primary level education. Almost one quarter (24.9%) have no formal education. 15.1% are only able to read and write. Around one-fifth (20.4%) have secondary level education or above. It is clear that the average level of education is very low. Mahmud *et al* (2007) found that about 55 percent of the borrowers have no

formal education. This is double the share suggested by our survey. This difference might be explained by the micro-credit programme itself since illiteracy may be reduced by the associated training borrowers receive. Nevertheless, the survey does suggest that ASA's micro-credit programme is reaching people with low or no education who are one would also expect to be "on average" poor.

Table 2 Educational Level

Level of Education	Frequency	Per cent
College	14	3.5
Secondary	67	16.9
Primary	157	39.5
Able to read and write only	60	15.1
No formal education	99	24.9
Total	397	100.0

Table 3 provides information about household size. Household size is split into three categories: *Small* (1-2 members), *Medium* (3-5 members) and *Large* (5 plus members). In the survey, "family members" are individuals who are living together and having meals together and include the borrower, his/her spouse and any children. The survey suggests that just over half of the borrowers (51.4%) fall in the "medium" household size category. 39.5% of the borrowers fall in the "large" household size category. This leaves less than 10% (9.1%) in the "small" category. This likely provides indirect evidence that ASA's micro-credit programme is reaching the poor since it is well known that poverty is a positive function of household size.

Table 3 Household Size

Household size	No. of family members	Frequency	Per cent
Small Household	1 to 2	36	9.1
Medium Household	3 to 5	204	51.4
Large Household	5 plus	157	39.5
Total		397	100.0

As mentioned above the ownership of land is an important variable in deciding who is eligible for ASA's micro-credit loans. Clearly a key difference is whether the borrower owns any land at all. Table 4 shows the distribution of land ownership broken down into six categories based on amount of land owned measured in decimals (i.e. 1/100 of an acre). The survey suggests that over half of borrowers (54.2%) do not own any land. 36% of borrowers own less than 40 decimals. It is interesting to note that 9.8% own more than 40 decimals. Given the maximum they can own and still be eligible for a loan is 50 decimals (half an acre) it seems unlikely that many are above this threshold.

It has been found that in some micro-credit programmes the land ownership threshold requirement is not often enforced. In such programmes, individuals are given loans who effectively own "too much" land. The data suggests that this is not likely occurring much with ASA loans. However land ownership is a key determinant of income and hence is very much

related to poverty. Given that over half the borrowers are landless (with most of the other borrowers owning what are very small amounts of land), the data support the view that ASA loans are reaching the poor—and perhaps even the “poorest poor”. Related to the ownership of land is the share of borrowers who have more than one source of income. The survey indicates that this is the case for 64.5% of borrowers. For many borrowers this additional source of income will be generated through the cultivation of land that they own.

Table 4 Land Ownership

Land size (decimal)	Frequency	Per cent
No land/Landless	215	54.2
Up to 10 decimals	39	9.8
11 to 20 decimals	57	14.4
21 to 30 decimals	33	8.3
31 to 40 decimals	14	3.5
Over 40 decimals	39	9.8
Total	397	100.0

As discussed above, one view is that training targeted at borrowers leads to increased efficiency in the way in which the loans are used. This in turn should improve the poverty reducing impact of micro-credit. The survey suggests that almost 85% of borrowers think that training is essential for managing a business or for starting up a business. They were also asked if they had received any training. 70.5% of borrowers reported that they had not received any training. It is clear that there is a considerable imbalance in what is needed and what is being delivered with respect to training.

Concluding Comments

In this paper, data collected in a survey of micro-credit borrowers was analysed in order to investigate whether ASA is reaching poor people in Bangladesh. It was found that over half of the borrowers own no land. It is likely that few borrowers (if any) own more than half an acre of land. In addition two-fifth of borrowers report having no formal education or only the ability to read and write. Since landless and low education are perhaps the two main determinants of poverty in low-income agriculture-based societies, the analysis supports the view that ASA is indeed reaching the poor. However, it is interesting to note that the demand for training is high amongst borrowers. Perhaps this is not surprising given the low education level of the majority of borrowers. Nevertheless, the large gap between demand for training and supply of training will need to be addressed in order to capture the maximum potential benefit of micro-credit as a poverty-reduction policy.

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