

Problems in Micro Financing Of Bangladesh: A Study on Grameen Bank

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ABSTRACT

Bangladesh has been perhaps the most important hearth on the globe for micro finance providing organizations. In recent years, micro credit or in its wider dimension micro finance, has become a much favored intervention for poverty alleviation in the developing and least developed countries. Grameen Bank assists the rural poor to reduce their poverty and for socio economic development by micro financing. In this context, the employees of GB work at grass- root level. After providing loan to the clients, Field officers collect the amount of instalment by visiting to their clients' houses. In addition to this, they provide direct service for the utilization of loan. Since the clients are less educated and encompassed with their local culture, so the field officers are to face of various types of problems. The purpose of the study is to find out the problems faced by the women entrepreneurs and bank personnel at the time of executing micro finance of Grameen Bank in Bangladesh. In view of the above, a total number of 100 clients from 5 bank branches and 20 bank personnel of GB were interviewed for the study. Two sets of interview schedules were used to collect data from the respondents. To overcome the problems and for playing sustainable role by GB on women entrepreneurship development through micro finance we suggest some recommendations.

1. INTRODUCTION

Bangladesh has been perhaps the most important hearth on the globe for micro finance providing organizations. In recent years, micro credit or in its wider dimension micro finance, has become a much favored intervention for poverty alleviation in the developing and least developed countries. Recognizing the importance and intensity of the problem of poverty the government of

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Bangladesh has given top priority to poverty alleviation in all the past five year plans and also in the 15 years (1995-2010) perspective plan for the country. In recent decades, micro finance in Bangladesh is implemented by NGOs, Grameen Bank, different types of government owned banks, private commercial banks and specialized banks. Almost all of these organizations that include such type of credit program for economic development have given top priority to involve the poor women, because they usually repay their loans regularly. Women's access to political, social, economic and legal institutions is restricted which are dominated and mediated by men. Men not only control decision making in various areas of the household arena, but they also exercise control over women's income, their access to employment, their income, their assets, and their choice of marriage partners. Average earnings of women in most of the countries are lower than those of men. In several developing countries, marriage is the only career for most women. Very few women get the opportunity to come out of the four walls and enter profession like industry, engineering, trade and economic activities. But it is immensely needed that women should come forward and contribute in the economic development of Bangladesh and to alleviate the poverty. Thus, this study try to identify the problems of women entrepreneur in taking loan as well as problems faced by the bankers in sanctioning and recovery the loan and executing operations in Grameen Bank borrowers in Bangladesh.

2. LITERATURE REVIEW

Akter, Shaheen (1997) made an important study on "Rural Women in Micro Credit Programs for Poverty Alleviation in Bangladesh- Participation and Constraints to their Activities." He indicated the participation of rural women in micro credit programs for poverty alleviation. Descriptive analysis with secondary data shows that female share in the group membership and loan disbursement in such programs increases satisfactorily. This results show the increment in their employment and average productivity. However, the available literature shows that the rise in the productivity is not so satisfactory due to multifarious constraints. Their average net return is lower than their male counterparts. Women use small loans in diversified activities. Most of these activities seem to be decreasing productive. Lower return may raised either from low productivity of female labour or from the women employment in low productive activities. Studies on credit programs are inadequate to draw a clear conclusion regarding this issue. Present review also identifies the lack of empirical evidence regarding the changes in wage rates and the gender dimension of such changes due to women focused micro credit programs.

Ali M. K (2006) studied the impact income of the micro credit receivers on socio-economic characteristics and he found that the income of micro credit

receivers cannot change the occupational status even in three decades. Ashraf, M. (1995) examined the NGO activities in Bangladesh and analyzed the extent of their coverage and credit operations, socio- economic impact, sustainability and effectiveness. He found that NGO interventions had minor impact on principal occupations but had discernable positive impact on secondary occupations of their beneficiaries.

Baker, A. M. (1996) found in his study named “Experiences of Some Special Credit Programs in Bangladesh Targeting Women.” some selective special credit programs targeting women in Bangladesh and found that weak organizational structure and poor loan supervision, low rates of return on certain activities financed and high cost of operation were potential constraints in expanding credit to women entrepreneurs. He made some recommendations which would minimize these constraints such as strengthening of credit delivery and recovery mechanisms, group formation, and noncredit activities but all these were related only to a part of the problem.

Begum (1993) in her study named “Entrepreneurship in Small Industries: Case Studies of Engineering Units” found that educational and family background and training and guidance of entrepreneurs play an important role in success. It has revealed that previous experience in engineering experience units, self-motivation and confidence, job skills and technical qualification, government policy and incentives influenced the entrepreneurs to take up an industrial venture on a small scale industry. Poor financial planning and management delay in procedural formalities and expenses for getting institutional loans, excessive stock levels, poor collection from debtors high competition, lack of sufficient order, erratic supply of raw materials, high tax and excise duty on sales were the major problems for development of small scale industries in Bangladesh. However she did not put suggestions for overcoming these problems.

Hossain and Miah (2000) wrote an article on “Problems of Women Entrepreneurship Development: A Case Study of Grameen Bank Finance on Some Selected Areas.” They provide some problems faced by clients and the bank personnel such as expansion of business, innovation, new line of business, technological change etc. But they could not find out the basic problems faced by the clients especially women entrepreneur as well as they don’t pay any effective suggestion to overcome those problems. Osmani, L.N. (1998) wrote an article on “Impact on Credit on the Relative Well Being of Women: Evidence from the Grameen Bank”. He provides a mixed picture of impact of GB credit to women. She obtained a positive impact on income decision about family planning, ownership of land and other asset and on access to food. Impact was not significant on overall decision making access to personal affect and on perceived self-interest.

Rahman, F and Ali, I (2007) provided an article entitled “Micro Investment and Socio-economic Development: A Case Study of Islami Bank Bangladesh Ltd. Kushtia Branch”. In the article it is shown the development done by IBBL through micro investment. But the problems faced by clients and bank personnel occurred at the time of micro investment and other activities were not shown. Rahman, Ali & Hossin (2000) made an important study entitled “An Evaluation of Thengamara Mohila Sabuj Sangha- a Case of Bogra District”. They mentioned that TMSS has been playing a beneficial role in alleviating poverty by providing financial assistance to women entrepreneurs. They also indicated the loanees of TMSS faced several problems such as inadequate loans from TMSS, disorganized and poor marketing facilities, lack of proper training and scarcity of high yielding variety seeds.

3. METHODOLOGY OF THE STUDY

Methodology is an essential part of the study. It includes designing samples, sources of data, collection procedures of data and processing & analyzing of data. Primary data were used for the purpose of the study. Primary data were collected from 100 (female) beneficiaries and 25 bank personnel through personal interview on random sampling basis. The interview schedules are prepared for two categories of respondents’ viz. loan borrowers or clients and bank personnel. The schedule for women entrepreneur have been filled-up directly by the researcher and the questionnaire for the bank personnel were filled-up by the respective bank personnel. The entrepreneurs. These are stated in the following sub-headings:

3.1 Sampling Technique

3.1.1 Branch Selection

There are sixty four districts in Bangladesh. Out of sixty four districts five districts i.e. Khulna, Kushtia, Jessore, Manikgong and Gopalganj are selected through stratified purposive sampling technique as sample. In this study researcher has taken the largest micro financing bank i.e. GB. With a view to making the sample unbiased and fully representative, 5 branches have been selected from five districts. One branch from each district is selected purposively for the study. Branches are selected through stratified random sampling techniques.

3.1.2 Respondents Selection (Clients)

The sample has been selected for the survey considering such factors as size, location, number of clients and capacity. A total of 100 Clients (20 from each

branch) are selected as sample for the survey which is found out by using purposive sampling technique.

Table 1: Distribution of Respondents (Clients) by Districts

SL. No.	Districts	GB (Clients)	Percent
1.	Manikgonj	20	20
2.	Gopalganj	20	20
3	Kushtia	20	20
4	Jessore	20	20
5	Khulna	20	20
Total		100	100

3.1.3 Respondents Selection (Bank personnel)

One the other hand, 25 bank personnel have been selected purposively for the study. From five branches 5 branch managers (1 from each branch) and 20 field officers (4 from each branch) representing the sample units have been selected as bank personnel respondents. The category and number of the respondents are summarized in the table 2

Table 2: Respondents Selection (Bank personnel)

SL. No	Category	GB	percent
01	Branch Manager	05	17
02	Field Officer	25	83
Total		25	100

4. FINDINGS OF THE STUDY

4.1 Problems Stated by the personnel

Grameen Bank assists the rural poor to reduce their poverty and for socio economic development by micro financing. In this context, the employees of GB work at grass- root level. After providing loan to the clients, Field officers collect the amount of installment going to their clients' houses. In addition to this, provide direct service for the utilization of loan. Since the clients are less educated and encompassed with their local culture, so the field officers are to face of various types of problems. The researcher collects data relating to the

problems concerned with the bank personnel. The perceived problems are presented in table 3

Table 3: Problems faced by the bank personnel

Sl. No	Problems	GB	
		Frequency	%
	Lack of proper transportation	15	50
	Lack of proper communication	7	23.33
	To maintain huge documents	10	33.33
	Difficulty in maintaining Purdah	10	33.33
	Illiteracy	6	20
	Social custom barrier and fundamentalism	15	50
	Excess workload	17	56.67
	Lack of security to carry the money	8	26.66
	Temporary illness of clients	5	16.66
	Severe poverty	4	13.33
	Migration the clients like India	3	10
	Temporary strife between Husband and Wife	4	13.33
	Problems relating to identify the skilled reliable and truthful customer	4	13.33
	Misuse of investment	6	20
	Natural calamities	4	13.33
	Limited investment providing capacity	10	33.33
	Overlapping problems	11	36.66
18	Other NGOs provide more facilities	9	30
19	Some center is too far from the branch	8	26.66
20	Clients have involvement with local crime	17	56.67
21	Field Officers salary and facilities are insufficient	12	40
22	Lack of sufficient training for the Field Officers	6	20
23	Do not have training facilities for the clients	10	33.33

These problems are discussed below:

1. Lack of proper transportation

Working area of a field officer is not small. They are provided Bicycle to run 50 to 100 kilometers every day. It is hard as well as time consuming. 50% respondents of GB opined that it is a great problem.

2. Lack of proper communication

The field officers come from various districts far from their working area. So, they are usually not familiar with local culture as well as local dialect. Because of illiteracy, rural destitute women bring up their local culture and speak in local dialect, which is cumbersome in communicating between field officer and clients. As a result they don't discuss with the client frequently. 23.33% respondents of GB face this problem.

3. To maintain huge documents

For providing loan, field officers have to maintain excess formalities and huge documents. As a result, they can perform comparatively less works. 33.33% respondents of GB said that it is a major problem.

4. Difficulty of maintaining Purdah

97% clients of GB are women (Annual Report 2009 of GB). But the 100% field officers are male. Because of social culture and religious barrier the male employees cannot discuss with the female clients frequently and freely at the time of service. Similarly they face same kinds of problem during the time of loan recovery. So, Shariah purdah is not maintained. 33.33% respondents of GB said that this is a serious problem.

5. Illiteracy

The rate of illiteracy in Bangladesh is very high. This picture is not different in the study areas. It has been reported that the low rate of literacy is a formidable bottle neck in the smooth handling of business transaction with the illiterate clients. 20% respondents mentioned such kind of problem.

6. Social custom barrier and fundamentalist

Women customers operating in the rural areas are bound by some social custom and strong religious barriers. It creates difficulties in their operations. In view of this problem, is somewhat difficult for the bank personnel to perform their responsibilities smoothly, specially dealing with women clients working under several social constraints 50% respondents claim that this is a great problem.

7. Excess workload

Excess workload is hampering operational efficiency. Almost all the field officers stated that the volume of works has increased than earlier, but the workforce has remained the same. So, it is difficult to render proper services for excess workload. 56.67% respondents stated it as a major problem.

8. Lack of security to bear the money

An employee goes regularly to the clients for receiving installments to a remote area. Most of rural area of Bangladesh is underdeveloped. The poor youth remain unemployed. It is known to all that "idle brain is a devils workshop". When the

employees of bank, return to office collecting installments feel unsecured. It is a great problem for the field officers. 26.66% respondents said that it is a great problem.

9. Temporary illness of clients

Temporary illness is one kind of major problems. It creates low productivity and the customer become unable to pay installment in due time. 16.66% respondents said that it is a vital problem.

10. Severe poverty

A Proverb goes, "Necessity knows no law." The prominent economist Ranger Nurks, said "A country is poor because it is poor." It is called vicious circle of poverty. In fact, poverty itself is a problem. A poor person always falls in need and need. In this situation, the poor clients use their investment in consumption or other obligatory needs. Consequently, they can't pay their installment in time. 13.33% respondents opined that it is the main problem for Bangladesh.

11. Migration the clients like India

Some of the customers use their investment in their personal consumption purposes and failing to pay installment. For this reason they go to another place even outside the country. 10% respondents identified it as a problem.

12. Temporary quarrel between Husband and Wife

In a poor family conflict may be created between husband and wife. It hampers utilization of investment in proper place and time. Sometimes invested money remains idle due to the conflict between spouses. As a result recovery of loan falls in uncertainty 13.33% respondents identifies it as a major problem.

13. Problems relating to identify the skilled reliable and truthful customer

It is so tough to search for the skilled and reliable entrepreneurs. A good number of field officers mentioned that they faced serious problems to discover skilled and truthful customers. 13.33% respondents said that it is great problem for them.

14. Uses of loan in consumption

Danger comes without warning. Most of the clients of GB live under poverty line. When they fall in serious trouble, they consume money in lieu of investment in selected sector by the GB. 20% respondents treated it as a great problem.

15. Natural calamities

Natural calamities like floods, draughts, famine, natural disaster are common phenomena in Bangladesh which create poverty. It also create serious problems for paying the installment bestowed on clients' in due time. Consequently, the bank faces problems to recover the investment. 13.33% respondents sated that it is a problem.

16. Limited investment providing capacity

The investment capacity of Field Officers is limited. It is also insufficient to fulfill the demand of clients in existing socio economic situation of Bangladesh. 13.33% respondents of RDS & 52.63% respondents of GB treated it as an important problem.

17. Overlapping problems

Overlapping problem is one of the major problems faced by the field officers. Several field officers stated that different NGOs distribute loans among the GB borrowers with utmost secrecy. In such a situation the clients usually divert their loan for some unproductive purposes. Due to such diversion when time for the payment of installment comes, the clients are not able to generate income for the payment of installment. Therefore, they become defaulters. Consequently, the recovery of loan becomes very difficult from them. 36.66% respondents identified it as a major problem.

18. Other NGOs provide more facilities

The above table shows that some of the bank personnel had problems with investment size and other facilities. They mentioned that the amount of investment and other facilities they had received from the GB was inadequate for them to pursue their income generating activities (IGAs) smoothly. 30 % respondents stated that it is a major problem.

19. Some centers are too far from the branch

Some centers are too far from the branch. But field officers are provided bicycle to perform their duties. So it is very difficult to handle these centers. 20 % respondents stated that it is a vital problem

20. Clients have involvement with local crime

Field study revealed that many clients are involved in various local crimes which can be created threat for the goodwill of GB. 56.67 % respondents of GB stated that it is a major problem.

21. Field officers salary and facilities are insufficient

The salary and other facilities provided by the GB are not sufficient. So the field officers are facing problems to maintain their family needs in this socioeconomic condition. 40 % respondents stated that it is a serious problem.

22. Lack of sufficient training for the field officers

Training for the field officers from the GB is not enough in this modern age. So they cannot do their duties and responsibilities efficiently in some special cases. 20 % respondents stated that it is a serious problem

23. Do not have training facilities for the clients

Most of the clients are women and many of them are illiterate, so they have no idea about business. GB has no arrangement any training facilities for their clients. So in maximum cases they cannot utilize their credit properly. 33.33 % respondents stated that it is a major problem.

4.2 Problems faced by the clients

Like other credit programs, GB micro credit clients also face some problems participating in the microfinance program. Their problems are diverse in nature and vary depending on time, space, socioeconomic aspects and nature of the program. Success of the program largely depends on identifying and solving the problems on time. Therefore, in order to improve the operations of the program, it is important to identify clearly the borrowers' problems.

The respondents are not highly educated. Most of them are of primary level. They express some problems while questioning to the researcher. The problems they faced are given below:

Table 5: Problems faced by the clients

GB			
Sl. No.	Problems	Frequency	%
	Excessive formalities and huge signatures	75	75
	Insufficient Gestation Period for Repayment	45	45
	Compulsory signature	57	57
	Insufficient amount of credit	85	85
	Lack of necessary training	42	42
	Social Custom and Culture	47	47
	Regular presence in meeting	46	46
	Shifting living place	40	40
	Excess Tension for Defaulter Group Members	49	49
	Illness of spouse	22	22
	Maintenance of <i>Pordah</i>	69	69
	Lack of Modern Technology	50	50
	Lack of Proper Information	40	40
	Interest based	77	77

1. Excessive formalities and huge signatures

Most of the customers of GB are illiterate. To take the loan from bank, customers have to face huge formalities and sign many times. 75% respondents stated that it is a serious problem.

2. Insufficient Gestation Period for Repayment

Payment of first installment starts after a week and the installments are to pay every a week continuously. It is difficult to earn profit from a business within a week. So, one week gestation period for the repaying of installment is a serious problem for the clients. 45% of GB respondents suffer from this problem.

3. Compulsory signature

For taking loan customers' signature is mandatory. Maximum customers of GB cannot sign. Before receiving loan they have to learn how to sign. It is not so easy for the aged and illiterate people. 57% respondents opined that it is a vital problem.

4. Insufficient amount of credit

Insufficient amount of money usually cannot meet the demand of all types of business conducting clients. First time GB sanctions taka five thousand only, then increases year to year. It is the problem for the clients. 85% respondents opined that it is a great problem.

5. Lack of necessary training

There is a proverb, "practice makes a man perfect." The customers who join GB don't know how to run a business. Lack of training a woman faces problems to run her business and consecutively cannot earn sufficient profit. 42% respondents said that it is a vital problem.

6. Social Custom and Culture

A bad concept is prevailed in our society regarding NGOs activities. Still now, many people bear this conception that women cannot and should not operate business or firm. They feel shy to conduct business or firm. So, operation of business and involvement into business become hampered. 47% of GB respondents suffer such type of problem.

7. Regular presence in meeting

Generally rural women don't like to go anywhere without permission of their husbands. On the other hand, they always remain busy to meet their poverty and manage the family. So presence in meeting in every week is tough to the poor women. 46% respondents opined that it is a great problem for them.

8. Shifting living place

Going of the members to other places even outside the country is a serious problem. Some of the customers especially those, who live without husbands, go to India due to fear of paying installment. It is a great problem for other members because of group wise security. GB respondents said that it is a vital problem.

9. Excess Tension for Defaulter Group Members

Every member of each group is responsible for paying the installments of group member (s) if one fails to pay it. It is also an extra tension for the group members. 48% of RDS & 49% of GB respondents suffer from this problem.

10. Illness of spouse

Generally rural women depend on their husband, the husband cooperate in their business and other activities. If the husband of any client becomes ill, she falls in problem to pay installment in due time. 22% respondents face it as a great problem.

11. Maintenance of *Pordah*

Most of the clients of these sample banks are Muslim women. But 100% field officers are male. In this situation, maintaining *Pordah* becomes impossible in macro financing activities like attending meeting, paying installments etc. 69% of GB clients expressed that this is a great problem.

12. Lack of Modern Technology

The world is developing in every moment. Production cannot meet the demand of market unless its quality is up-dated with the developed technologies. During the field investigation the researcher observed that most of the clients use traditional technology which ultimately results in augmenting costs and increasing price. So usage of modern technology is required to save the clients from becoming sick and to cope with changing needs of the market. But clients have little knowledge and ability for this end. 50% of GB respondents opine that this is one of the important problems.

13. Lack of Proper Information

Different types of information such as information regarding market and marketing of products, sophisticated technology, facilities and incentives offered by the various organizations, sales promotional activities performed by homogeneous business etc. are required for the clients for smooth operation of the business. But they do not get these information in time. 40% of GB respondents suffer from this problem.

14. Grameen Bank (GB) charges and receives interest from its borrowers, but it is obviously helping the very poor to help themselves out of poverty by giving them unsecured micro-loans and it has never proclaimed itself to be an Islamic bank,

nor has it implied that its actions are within the Shari'ah. So what's the problem? At the heart of the issue is the fact that GB was founded (and is currently being run) by a Muslim, is operating mainly in a Muslim country and its customers are mainly female Muslims. Therefore, irrespective of the fact that GB has not declared itself as an Islamic bank, other Muslims have the right to ask: Be concerned about the acceptance of a deed more than you are concerned about the deed itself. Do you not meditate upon God's words "God accepts only from those who are righteous"? [i.e. those who follow God's law] (Al-Ma'idah 5:27) 77% of GB clients expressed that this is a great problem.

5. CONCLUSION AND RECOMMENDATIONS

If I travel along the wrong (but an arduous) road for 1,000 miles - I can be applauded by someone for the journey I undertook but of course, I can be criticized by the same person for taking the wrong road. There is no contradiction in praising someone for his efforts at 'attempting' to do good - but at the same time criticizing him for not doing it in the correct way (as identified by the majority accepted opinion). The example is when one congratulates a friend for attempting to pray, but at the same time, (if he is obviously doing it wrong) pointing out to him and clearly telling him to correct how he prays. If the friend believes he is doing it right - even though you know he is doing it incorrectly (and have the evidence to prove it to him) – you can at the very least warn him of his actions and point out to him the negative effects of those actions (incomplete Salah, or in the case of GB, making its Muslim customers pay Riba to it) and try to make your friend see and understand his error. If some people are engaged in impermissible activities - it is not up to us to condemn them (in the spiritual sense). Our task is to tell them that they are committing impermissible acts and to ask them not to do it (and to seek God's forgiveness). It may be that before death they will ask for God's forgiveness and at the final analysis & judgment in front of God, it may be that God will forgive them. Therefore, it is not wrong to applaud good intent - but at the same time, if the good intent is executed in a sinful way, we must forbid it - but without condemning the person (as this is the sole right of God alone).

We therefore should applaud GB for its efforts (because its intentions, as far as we can ascertain, is to do something good and it strove hard for it), but as Muslims, it is our duty to enjoin the good and to forbid the bad. In this case, GB's 'good' actions were (and are) carried out in an impermissible way (it travelled along the wrong road), because making money from the poor through Riba in the name of poverty alleviation as well as socio economic development are clearly not "the good" - in the reality that is Islam.

Is what GB doing within the bounds of Islam or not? What is the problem if GB charges Interest? Is Interest actually forbidden in Islam? If Interest is forbidden, isn't GB actually doing more harm than good by getting its Muslim customers to do something (pay Interest) which is forbidden for them? Is the Interest based micro loan route the best poverty alleviation strategy available or is there a better alternative? The questions can go on; however the crux of the matter and one which needs to be looked at closely in order to ascertain the true position in Shari'ah of GB and other Organizations like it are the one relating to interest.

But first, let's accept as valid for the moment, the majority accepted opinion of the Fuqaha that modern day Interest is equal to Riba. On this basis, the contention here is that since Interest=Riba and since GB is receiving interest from its borrowers; then no matter how laudable the aims and socio-positive actions of GB are, after everything is said and done - the fact remains that GB still falls outside the Shari'ah.

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Therefore, its 'good & positive' actions cannot be accepted by Muslims with a genuine welcome. This is because the means to this noble end is grounded in something which has been strictly forbidden (Riba).

This is based on statements from God Almighty in Surah Taubah (Verses 53 & 54) and Maidah (Verse 27) and many Hadiths – which propounds the simple premise that God does not accept the good from the bad.

That is: God does not accept one's Islam if it is not expressed in deed, and does not accept the deed if it does not conform to the Islamic law (which forbids Riba). The 1st male to accept Islam after Prophet Mohammed (pbuh): Ali Ibn Abu-Talib (may God be pleased with him), was reported to have said:

Thus, based on the arguments provided in this study, Grameen Bank cannot be regarded as an Islamic and appropriate solution to socio economic development. Nevertheless, we should not lose sight of the fact that what GB is doing is helping the poor. However, this is contrary to the spirit of the Shariah as God has already given us the solution to poverty alleviation as socio economic development in the form of the organized collection and distribution of *Zakah* (not GB's Interest based micro-loans, funded from Interest charging sources).

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